

*THEORETISING THE FOUNDATIONAL
CONCEPTS of THE PROCESS of FINANCIAL
CRIMES in COMPARATIVE ECONOMIC
SYSTEMS: An Attempt in Grounded Theory*

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How to cite:

OZKAN, KADIR (2014) *THEORETISING THE FOUNDATIONAL CONCEPTS of THE PROCESS of FINANCIAL CRIMES in COMPARATIVE ECONOMIC SYSTEMS: An Attempt in Grounded Theory*, Durham theses, Durham University. Available at Durham E-Theses Online:
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**THEORETISING THE FOUNDATIONAL CONCEPTS
of THE PROCESS of FINANCIAL CRIMES
in COMPARATIVE ECONOMIC SYSTEMS:
An Attempt in Grounded Theory**

by

KADIR OZKAN

**This Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of
Philosophy at Durham University**

School of Government and International Affairs

Durham University

2014

Theorising the Foundational Concepts of the Process of Financial Crime in Comparative Economic Systems: An Attempt in Grounded Theory

Kadir Ozkan

Abstract:

Financial crimes have become one of the most destructive types of crime in post-industrial societies in terms of economic and financial consequences. While the importance of financial institutions in the modern economic system cannot be negated, their critical function in the society with their enormous powers brings about many questions, especially in relation to systems of checks and balances. The increasing number of adverse examples in the last decades provide evidence for the enormous negative consequences of corporate failures resulting from shortcomings in the checks and balances.

This study, hence, is motivated by the current financial failures, and aims at exploring and examining financial crimes in terms of the process of becoming a financial white-collar criminal in various financial systems, namely capitalist, socialist and Islamic systems, as well as exploring the vulnerability and propensity of each system in relation to financial crimes. In addition, this study, departing from the shortcomings of Eurocentric understanding and referring to cultural and religious norms, aims to re-conceptualise some of the concepts, subcategories and dimensions with the objective of developing and theorising an improved version of rational choice theory in criminology for a better comparison.

In fulfilling the aims of the study, a discourse analysis approach through a deconstruction method is utilised to locate and identify the underpinnings of the existing theoretical frameworks through comparative case study as a method, by comparing extreme cases of market/capitalist finance, socialist/transitional and Islamic/moral finance. In addition, grounded theory is used as a method to construct a modified version of the existing theories by using a number of formal codes such as 'motivation', 'environment', 'target', 'guardian' as concepts and 'opportunity spaces', 'real, perceived selves', 'ideal and feared', 'need and guarding gaps', 'haste', 'expectations', 'deviance', 'crime motivation', 'act of crime' *etc.* as subcategories and 'material', 'social' and 'moral' as dimensions.

Such an attempt is rationalised on the ground that the current criminology theories are unfortunately linear theories and they do not make decisions about a regular person. Therefore, there is no crime theory that is confident enough to receive a regular person and make dynamic, relativist, complex analysis about them in prospect, depending on the changing conditions of the inner and outer world of the individual, unlike the '*complex theory of crime*' produced by this research through grounded theory.

A comparative analysis to order the financial systems according to their vulnerability to financial crimes is also provided in this study using the '*opportunity spaces*' concept of the grounded theory which develops the classical 'opportunity' argument of the rational choice theory to almost a small theory of opportunity. This analysis suggests that the most vulnerable financial system to financial crime is the market based financial system, which is followed by socialist/transitional and Islamized financial systems. The comparative analysis of the study on crime propensities of financial systems also confirms the literature on economic and financial systems that argues that the financial systems are converging despite their strong and distinctive ontological and epistemological differences and capacities to enrich and improve each other.

The theoretical model developed in this study reveals that crime motivation is only an extension of ordinary motivation and has a dynamic nature. Dynamic in both the micro world of the individual and his/her close social/physical environment and also the macro environment in terms of the wider space of political-economy and social culture.

This study fills an important gap in criminology literature which has been sought for decades since the 1970s. Indeed, the resultant theory in this study is unique in its approach because it is a micro-founded macro theory, unlike all the criminology theories which have either micro (biological, psychological theories, control theories) or macro (*i.e.* symbolic interactions, social bonds theory, life-course theory, conflict theory) foundations.

Declaration

None of the material contained in this thesis has previously been submitted for a degree in the University of Durham or any other university. None of the material contained in this thesis is based on joint research. The content of this thesis consists of the author's original individual contribution with appropriate recognition of any references being indicated throughout.

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The copyright of this thesis rests with the author. No quotation from it should be published without prior written consent and information derived from it should be acknowledged.

Dedication

To my honourable teacher, supervisor Mehmet Asutay, my dear parents Durdu and Çetin Özkan, my brother Durmuş Özkan, my beloved wife Esra and cute daughter Gülbahar and son Tahir İbrahim.

They are the sculptures of this author. Whatever I have well in me, either directly or indirectly, is because of them and, if the rest means something, the rest belongs to me alone.

Acknowledgements

My supervisor, Mehmet Asutay's adorable help is beyond all the praise. I applaud him from the faces of these pages. I learned many things from him but his personality is the most important and undoubtedly the hardest thing I could learn and imitate.

Nevertheless, I could have not gotten the opportunity of meeting him in the first place... This has been possible by the Turkish Government. This project received funding from the Ministry of Interior of the Republic of Turkey and without their support even the imagination of it was not possible for the author with his financial circumstances. My colleagues Kutluer Karademir and Haluk B. Gulec's help also deserves praise as well as other colleagues who put up with the absence of my soul in the workplace. I owe a great deal to their invaluable and continuous support.

My father, my mother and my brother they will have a big relief after this study completely finishes. Thank you for your never-failing-support. My beloved wife, Esra, without her encouragement, patience and smiles, this thesis would not be possible. Gulbahar and Tahir, when you come to the age of understanding these sentences you should know that my love for you was part of my patience.

I wish you all; the happiest life ever lived in the universe.

Kadir Ozkan

April 2014, Istanbul

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List of Abbreviations

AAOIFI	Accounting and Auditing Organizations of Islamic Financial Institutions
AGM	Annual general meeting
ASEAN	The Association of Southeast Asian Nations. Initially, Philippines, Malaysia, Thailand, Indonesia, Singapore, then, Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam
BIS	Bank of International Settlements
CalPERS	California Public Employees' Retirement System
CBOT	Chicago Board of Trade
CCP	Chinese Communist Party
CDS	Credit Default Swap
CEPS	Centre for European Policy Studies
CIP	Commercially Important People
CME	Chicago Mercantile Exchange
CPC	Chinese Communist Party
CSR	Corporate Social Responsibility
DOT	Designated Order Turnaround (e.g. SuperDOT)
EACA	European Association of Communications Agencies
EC	European Commission
ECJ	European Court of Justice
EFT	Electronic Funds Transfer
EU	European Union
EMU	Economic and Monetary Union
FDI	Foreign Direct Investment
FWCC	Financial White Collar Crime
FSA	Financial Services Authority

FT	Financial Times
FTSE	Financial Times and London Stock Exchange
FWCC	Financial White Collar Crime
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GIC	Government Investment Certificates
GNI	Gross national income
GNP	Gross National Product
HDI	Human Development Index
IBF	Islamic Banking and Finance
ICGN	The International Corporate Governance Network
IIIT	International Institute for Islamic Thought
IMF	International Monetary Fund
IRS	Internal Revenue Service
LBO	Leveraged Buy-Outs
LSE	London Stock Exchange
LTCM	Long Term Capital Management
MAI	Multilateral Agreement on Investment
M&A	Mergers and Acquisitions
MII	<i>Mudaraba</i> Inter-Bank Investment
MOT	Ministry of Transportation (popularly used in the UK for vehicle test)
NACRO	National Association for the Care and Resettlement of Offenders
NAFTA	North Atlantic Free Trade Agreement
Nasdaq	National Association of Securities Dealers Automated Quotation System
NSG	National Systems of Governance
OECD	Organization for Economic Co-operation and Development

PEST	Political-legal, Economic, Sociocultural, Technological Environment
PLS	Profit and Loss Sharing
PPP	Purchasing Power Parity
RCT	Rational Choice Theory
RAT	Routine Activities Theory
SEC	Securities and Exchange Commission
SMEs	Small and Medium-Sized Enterprises
TEU	Treaty of European Union
TNCs	Transnational Corporations
UCR	United Crime Reports
UN	United Nations
UNCTAD	The United Nations Conference on Trade and Development
UN ODC	United Nations Office on Drugs and Crime
VIP	Very Important People
VIVA	Value, Inertia, Visibility, Accessibility of Routine Activities Theory
WB (IBRD)	World Bank (International Bank for Reconstruction and Development)
WCC	White collar crime
WTO	World Trade Organization

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Chapter 1

INTRODUCTION

1.1. BACKGROUND

In recent decades, financial crimes have reached shocking levels (*i.e.* Enron), with devastating impacts (*i.e.* global mortgage fraud in 2007 and afterwards), which have been overlooked (*i.e.* Arthur Anderson) and render helpless ('too big to fail' rescues'), so that they turn a country, spearhead of *laissez-faire* capitalism, into an almost socialist state which nationalizes the biggest conglomerates, while developing countries privatize them.

Observing the global environment of financial crime, Interpol (2012) agrees that financial crimes now have the power to affect nations in addition to individuals and corporations, but what has made their number and effects so big and so powerful is still a mystery. Is it really modern life with its many opportunities that causes the increasing crime rates? Is humanity damned by the consequences of modern life or does it have options to improve its crash picture of financial crime propensity? Should, for instance, one expect the same rate of financial crime propensity in Socialist and/or Muslim countries, which, in principle, encircle far greater circles *i.e.* to encompass all the working class or the whole *ummah*, respectively, *and* sometimes even prohibit, restrict and/or control property ownership? Should one expect the same number of financial crimes in these countries?

This study is based on this comparative perspective and aims to explore the distinguishing features of various cultures, systems and societies, with the objective of putting them into a coherent process to draw a theoretical model of the financial crime propensity of each of these systems. These differences are the main source of original knowledge in this field, because we all work for money but this does not make most of us financial criminals. There is nothing wrong about working for money *per se*. We

all have ideologies, beliefs too, just as we have at least a few people around us to socialize with because we are conscious and we are social creatures. Nevertheless, all of us do not evenly distribute these functions in our lives. Some devote themselves to their ideologies so much that they do not have many friends nor do they work for money; some are so social and devote themselves so much to solidarity that they also do not work for money, *etc.* This study is not about them but about those who are unbalanced towards money, about those who have enormous sums of money but no principles and no real friends: financial criminals. Reconsidering them, one realises that they are not uniform in their inclinations either. This diversification in objectives and motivations as well as their targets is, we believe, worth closer observation and analysis.

The subject matter of this study is white-collar financial crimes and we assume that financial criminals' rationality is materialistically-dominated; however, this does not mean that everybody with materialistic worldviews commits financial crime. Adversely, the crime process is so complex, just like all social phenomena, that it is only possible to predict it via probabilistic, non-deterministic and more complex, pluralistic ways.

This study, hence, aims to present an attempt at theoretical conceptualisation, to develop an advanced understanding of the financial crime process, which merely represents an approach still far from presenting a complete picture of financial crime as a social phenomenon with all the relevant details.

1.1. AIM, OBJECTIVES AND RESEARCH PROCESS

This study aims to explore and examine the process of financial crime in the sense of the process of becoming a financial criminal with the objective of constructing and locating it in a theoretical conceptualisation. As part of this process, the study examines, redefines and conceptualises the existing concepts and parameters of such a process, as provided by the existing theories, with the objective of developing a modified theoretical construct to identify the factors motivating individuals in committing financial crimes. In doing so, this research theoretically attempts, therefore, to reveal the reasons why some commit crime while others stay away from

it. Importantly, the aims of the study are conducted within a comparative economic framework, with the objective of locating the propensities of market, socialist and Islamic based financial systems towards financial crimes through the theoretical underpinnings of each of these systems in relation to the concepts, parameters and dimensions constructed or re-defined by this study as benchmarks. Thus, this research aims to identify the financial crime propensities of each of these systems; and in relation to the first aim, it also aims to conceptualise the motivational factors incentivising individuals towards financial crime within the opportunity spaces offered by each of the systems.

This study hypothesises that if the working mechanism of the longitudinal financial crime process can be located, then frequency, period, severity, rise and fall of economic crimes in case of major structural change can be predicted by looking at the important parameters of the whole process, such as the macroeconomic processes, social structures and economic, social, political *etc.* environment.

In responding to the comparative nature of the study, ten countries (United States of America, United Kingdom, Italy, Russia; China, Cuba, Iran, Sudan; Saudi Arabia, Malaysia) were selected by dividing them into four different groups: market (capitalist) economy, socialist (transitional) economy, fully Islamized economy and partially Islamized economy, by using the method of grounded theory in the sense of ‘theory building by comparative case study’, with the objective of determining the patterns that govern these financial systems according to their vulnerability to financial crime.

As regards the objectives of this study, comparative analysis of such systems undoubtedly yields a great deal of insights, knowledge and understanding about the phenomenon of ‘crime’ in general and ‘financial crime’ in particular. For instance, even at the very beginning of this study, it was realized that not only are there hardly any common definitions available of ‘crime’ as a fact, but also related concepts and parameters as part of the crime process, as evidenced by the literature. If crime is defined as behaviours that are banned by legal codes, then all the moral crime definitions of established religions and socialism have to be negated. As part of the socially constructed nature of the definitions, for example, financial white-collar crime becomes equal to political crime in a socialist system because no other people

have access to the effective positions in financial institutions in such states.

As is clear from the conflicting nature of socially constructed definitions, this study, as an objective, commenced with the very basics of the existing literature with the objective of clarifying the definitions available so that a working definition could be developed. For this, grounded theory is utilised in deconstructing the existing literature and in constructing a modified theoretical framework with similar codes, based on our original (clarified) terminology.

Most of the time, literature uses terms like ‘organized crime’, ‘white collar crime’, ‘professional crime’, ‘economic crime’, ‘financial crime’ and even ‘political crime’ in an interchangeable manner. However, making a clear distinction between them is essential. Following these definitions therefore specific crimes are defined by this study to identify the framework and the remit of the study.

The second important objective of this study has been the literature review of the theories of crime, as all the theories are classified according to their relevance to financial-white-collar criminality. In a critical approach, the rational choice theory is identified as the most relevant theory. Nevertheless, the current form of the rational choice theory has almost nothing to say about deviant motivation and thus is not useful for comparing various financial systems, because it is obvious that the same offenders under different financial systems may well have different levels of motivation due to the parameters and conceptual framework. If the motivation is excluded from the comparison, it is highly likely that we will produce misleading results. Similar to motivation, the nature of targets and the available opportunity spaces may differ as well and some qualities of them would be higher in certain systems while the same qualities would either be lower or stay unaffected in others. This is why a better foundational base for comparison by means of building a grounded theory based on rational choice is utilised as the main research design in this study.

After these definitions, clarifications and literature review, a distinction is made between various financial systems in terms of their paradigms, principles about crime and criminology. It turns out that there are very significant differences in the criminological identities, ideologies and outlooks among the systems we scrutinize.

As another objective, this research attempted to use grounded theory building by forming the main codes first and detailing them by using categories and various sub-categories. Based on the original rational choice theory, the long and arduous process of grounded theory is gone through and many codes are built and the relationships between them are shown in a quantitative manner. This was necessary because the primary characteristics of alternative systems such as morality, central planning and complete control of social life were not discussed by the mainstream criminology theorists in the form of a criminology theory. At least some of the criminals, with not a single doubt, have completely different mind-sets, paradigms, worldviews, but the Western literature on crime has not yet included these uncommon ideologies in their discussions, mainly due to their Eurocentric positions. They failed to realize that non-Western (wo)man would not think, behave, live, reason, believe, act, *etc.* like a Western (wo)man, but expected all these differences to converge to the Eurocentric positions. Therefore, building such a theory by improving the rational choice theory is considered by this study to be one of the first attempts.

Fulfilling this objective took the research back to the initial question of the most and least vulnerable financial systems. Before analysing these systems, this research as an objective attempted to compare the fundamental ideas and assumptions of economic and financial systems in which financial crimes are committed. This forms the economic environment of financial crimes but there are more factors of the *environment* such as social, cultural, political, legal, and these parameters are addressed too.

In order to answer this last question, the criterion of comparison based on the concept of greater and immediate ‘opportunity spaces’ (both positive and negative) is determined and lastly compared with the financial systems to distinguish them according to their vulnerability to financial crime.

Lastly, the targets and their relative weaknesses, positions, vulnerabilities in different financial systems are discussed and put into the context of ‘opportunity spaces’. The research puts criminological motivation into the same framework and makes theoretical comparison of it based on the results of the grounded theory, as constructed in Chapter Five. The aim in this part of the research is to lay down the fundamental reasons for motivational differences between various financial crimes.

1.2. RESEARCH QUESTIONS

While preparing this study, initially, the researcher had only one question in mind which can be put into various forms: “Which economic systems are more vulnerable to financial crimes than others?”. This research question, hence, is articulated in the following sub research questions:

- (i) How can we distinguish financial systems in order of exploitability or vulnerability in terms of their resistance to or propensity to financial crimes?;
- (ii) Which economic systems have a higher propensity to financial crime?;
- (iii) Are there any inner mechanisms, substructures, principles of economic systems which inferior economic systems could benefit from?;
- (iv) What is the socially optimal make-up, the criminologically sound integration of mechanisms of economic systems?, and
- (v) What kind of economic system would be the best in curbing the ever-increasing financial crime rates?.

In order to answer the main research question, that is, ‘which economic systems are more vulnerable to financial crimes than others?’, we need to have a criminological theory, because every theory has its own comparison requirements. For instance, if we use biological theory, we need to compare the racial features, such as genotype, anthropological, neurological, physical and anatomical make-up, of people living in certain spatial places. On the other hand, if we use sociological theories such as social learning theory, all the variables we manipulate change to a completely different set, which may be comprised of variables such as family, school, friend ties, socio-economic environment of the crime, developmental variables in a continuous past social environment and some other social geography measures.

Since this study explores, examines, and theorises financial crimes, it seems that the best theory to utilize in this study should be a rational choice theory. Nevertheless, the rational choice theory, although it fits well into the subject area, does not provide a sound foundation for our comparisons because of the extreme cases (encouraged by the grounded theory methodology) we compare. For this reason, the second research

question is developed, which has indeed been the primary question of the research and led to the initial question: why do people commit financial crimes? It should be noted that this research is primarily interested in answering the theoretical question, but in order to contextualise it, the financial systems are also compared in terms of their propensity for crime.

1.3. RESEARCH RATIONALE AND MOTIVATIONS

In order to explain the initial motivation for undertaking this study, perhaps a parable from Saul Alinsky (as cited by Reiner, 2009: 7) can help: “A fisherman sees a body floating down stream and jumps in to rescue it. The same happens a few minutes later, and then again and again. When a tenth body floats down, the fisherman leaves it and runs upstream, to find out how to stop these people getting into the water in the first place”. By the same token, financial crimes and financial crises through their consequences can be compared to dead bodies now. They are on the increase on a global scale and the acceleration of this increase is terribly high¹ (Summers, 2009). Masciandaro (2004) asserts that today, the potential for financial abuse can threaten the strategic, political and economic interests of sovereign states. Very recently, the whole world suffered, and indeed is still suffering, from the subprime loans crisis that stemmed from mortgage fraud. In line with this, it has been also estimated that, by the middle of the 1990s, the ‘gross criminal product’ of organized crime made it the twentieth richest organization in the world - richer than 150 sovereign states (Castells 1998: 169).

If the frequency and period of an occurrence of financial crisis and large scale financial crimes increases, it is highly likely that we are not experiencing something happening by pure chance. These instances are not simple, probabilistic events. There may be a structure behind them. For instance, 80% of the subprime lending in the United States was adjustable rate mortgages (Dodd, 2007), which must have applied great pressure to debtors and lenders and forced them to commit fraudulent acts.

¹In the last 20 years there have been 6 (or 7) major financial crises: 1987: Stock market crash; 1990s: Savings and Loans real estate crash; 1995: Mexican crash; 1997: Asian financial crisis after Russian collapse and LTCM; 2001: Crisis after tech bubble burst and Enron (Summers, 2009); 2007: Global financial crises initiated by the US real estate bubble.

There is no doubt that every economic system has financial crimes and financial criminals and no system is immune to them, but there is also no doubt that a criminal cannot commit the same crime with the same level of ease in every economic and financial system. Some systems are better or worse than others in different settings and for different crime types because their structures are different. Available opportunity spaces, the nature of target tools, mechanisms, processes, principles, laws, technologies of the countries that implement those economic systems, give *different* incentives, possibilities, feasibilities to the criminals which must be reflected in the total number and severity of financial crimes statistics. Having said that, this study is also aware that convergence is taking place between different economic and financial systems due to the globalisation and the hegemony of capitalism, and therefore differences are becoming less distinguishable.

One can, however, still claim that certain differences of economic systems that may not be observable at first sight, that are happening ‘upstream’, are the causes of these crimes as they are. If they had been set to something else, the nature, frequency and seriousness of crimes would not be the same. In other words, systematic observation of financial crimes along with the nature, the structure and working of economic systems may yield the root causes of financial crimes or to put it more bluntly, some economic systems may have a higher propensity or readiness to financial crimes than others due to their internal dynamics and working mechanism. Financial crimes, therefore, can be ranked accordingly and the strongest/weakest economic systems against financial crimes (only) can be identified.

1.4. RESEARCH METHODOLOGY

Considering the nature of aims and research questions, this study mainly benefited from discourse analysis with the objective of ‘theory building by comparative case study’ (Eisenhardt, 1989) through grounded theory in criminology. For this, major financial systems, that are Capitalism, Socialism, and partially and fully Islamised financial systems, are analysed by comparing the following cases in order to build a grounded theory of financial crime or at least modify the existing theories. The cases are distributed among the systems as follows:

- (i) Market Economy: G8 Members - USA, Italy, Britain, and Russia
- (ii) Socialist (Transition) Economy: China, Cuba
- (iii) Islamic Economy
 - a) Fully Islamised: Iran and Sudan
 - b) Partially Islamised: Saudi Arabia and Malaysia

The time span of the analyses is confined to the period between 1980 and 2014 in order to produce coherent results. For the successful completion of the study, many qualitative and quantitative data were extracted from various sources such as Hoffsted culture indices, GDPs, GNPs, Human Development Index, International Competition Index, Corruption Index, Herfindahl-Hirschman Index (HHI) and many other social and economic indices and databases, along with published crime statistics of the countries in question to serve as the secondary data of analyses.

Criminological arguments are used intensively throughout the thesis. In this sense, incentives are important, because this study analyses financial crimes from the point of view of the rational actor. We also refer to the ‘rational choice theory’ of criminology as an established theoretical base, not only because it is relatively analytic and may deliver solid results but also because it is objective in nature, which makes it a valuable tool for the comparison of the systems under scrutiny, fairly. Having said this, the cultural context through which rational choice theory is developed is indeed acknowledged too. However, considering the above-mentioned convergence, one needs a methodological framework through which one can make comparisons. In this study, this constitutes an improved, extended, dynamic, positivist, pluralistic and complex rational choice theory.

For the second research question, qualitative comparative analysis is used as a method and utilizes concept-based comparison rather than agent-based comparison. Because of space constraints, a new conceptual framework with more explanatory power, namely ‘opportunity space’, is developed in the first analytical chapter.

Indeed we could use all of the codes of the grounded theory developed in this study to compare the financial systems, which would produce a neat, more concrete and detailed comparison. Nevertheless, the space restrictions forced us to choose the

alternative, opportunity spaces with fewer criteria that emerged from the grounded theory. However, the extensive comparative analysis based on the grounded theory developed by this study can be provided if requested, which is considered to be fully included in a publication developed from this study.

1.5. OVERVIEW OF THE RESEARCH

This study is organised in seven main chapters. The research presented in this study commences with conceptual definitions by weeding out definitional problems as to what ‘crime’ and ‘financial crime’ are. Indeed, extreme perspectives not only force us to abandon the classical definitions of the mainstream criminology literature, but also to explain the reasons why these alternative systems have such different definitions. In order to feed the intellectual wonder of the reader we took the responsibility of explaining the foundational differences of perspectives, ideologies, beliefs of the alternative perspectives of criminology. The definitional issues, hence, are discussed in Chapter 2.

In Chapter 3, literature on crime theories is reviewed with an extension to alternative paradigms of criminality. In this chapter, rational choice theory is identified as the best available theory which has some important inconsistencies shown in Chapter 4. Until the end of Chapter 4, preparations for the empirical analysis are presented and after this Chapter research methodology is explained in Chapter 5, which predicates the two empirical chapters of Chapter 6, grounded theory and Chapter 7, comparative analysis of financial systems on the basis of financial white-collar crime vulnerability. Chapter 6, which forms an improved version of rational choice theory based on individual needs and societal effects, is the most authentic part of this research. Finally Chapter 8 concludes the analysis and puts results into the context of the greater literature and discusses the possibility of further research.

The coding process of the grounded theory is presented as an appendix which is in fact an extension of Chapter 6. Thus, Appendix I plays a critical role in this study because it gives a positivist review of the grounded theory.

Appendix II presents the difficulties of reaching data on financial white-collar crime

and Appendix III concludes this study. Appendix III introduces and compares financial systems in more general terms and can be taken as an introduction to Chapter 7 which compares the vulnerability levels of the financial systems for financial crime.

Chapter 2

CONCEPTUAL DEFINITIONS AND ESTABLISHING THE FRAMEWORK AND SCOPE OF THE RESEARCH

2.1. INTRODUCTION AND BACKGROUND

This chapter defines crime and financial crime and locates them in their contexts and after explaining and analysing all major Eurocentric criminological theories recalls the existence of two alternative paradigms and identifies the proper theoretical framework for the scholarly studies on financial crimes. This, therefore, should be considered as ‘working definitions’ of the main concepts used in this study; and hence this chapter also aims to establish the framework and scope of this study.

2.1.1. Misconceptions about Crime

First of all, let us distance ourselves from the formal literature on ‘crime’ for a short while and ponder about it in order to compare our perception of crime with the reality of it.

Most of the time, we remember certain notorious criminals; disgusting live images, probably from Hollywood movies, police officers, CSI labs, judges and prisons. This is the common image of crime in society and it seems to belong to a distant, weird planet, which is populated by a disgusting species named ‘criminal’. However, we are usually not aware that one-fifth of the whole world prison population may be living with us in the same country²; which means it is very probable that in a pretty close proximity we are neighbours of those people who have very high recidivism rates, if we are already not one of them. Thus, crime is not distant from us, and indeed, it is

²This is correct in USA.

sometimes in us.

Distance is only one of the concerns about the misconception of crime. Another misconception is the *weirdness* of it. The Youth Justice board reports that one in three young people carry a knife or gun and commit a crime every two minutes (The Telegraph, 06 March 2009) and 300 online crime occurs every minute (The Telegraph, 06 September 2007) in Britain. In light of this pervasiveness, these statistics can be called anything but weird. Crime is, indeed, very familiar to us; it is even mundane in our daily life.

People usually perceive frequent and mundane things as ‘normal’ but the high frequency of crime does not necessarily mean that it is *normal*³. Most of the time it is *abnormal*. We experience a lot of ‘frequent’, ‘mundane’ but ‘abnormal’ things, such as the unluckiness of the number 13, talk of vampires and legal maturity at 6574 days ($18 \times 365 + 4 = 6574$) in some countries. Similarly, crime is frequent and mundane but abnormal⁴, pathological; unlike many frequent and mundane things⁵. This is one of the reasons why we have a criminological approach of “rehabilitation” of criminals because crime harms our society. Criminals kill, threaten, rape, kidnap, assassinate *etc.* others.

Like ourselves, some people can be perceived to be decent members of the society who have nothing to do with crime. Crime seems to be really distant from them, infrequent and weird for them. Like them, we never consider ourselves as criminals. Nevertheless, when asked the following questions people may hesitate about their criminality: ‘Have you received any parking violations or speeding tickets recently?’, ‘Have you claimed something unnecessary from your insurance company?’, ‘Have you reported all your online sales to the government for taxing?’, ‘How about copyright violations?’, ‘Have ever you listened to music or watched movies over the internet for free?’, ‘Do you have the license for all the software you use?’. In sum, ‘are you following all the laws and regulations of the country you live in or are travelling in?’. But before answering all these questions, ‘do you really know about all the legal codes and regulations of your government and the governments you visit?’;

³This is a famous idea of Emile Durkheim.

⁴ A very similar analogy is used by Hayek and Caldwell (2007) to show that widespread misconceptions exist in economic analyses.

⁵Meaning social pathology here.

‘Is it possible that you are not sure about some of them and maybe even frequently violate them?’.

Statistics claim that many of us should answer this last question positively. For instance “more than 300 internet crimes are being committed every hour” (The Telegraph, 06 September 2007) concerning which 7 million people are involved in illegal downloads in the UK (BBC, 28 May 2009). In 2002 on May 1st, 11 crimes were reported every minute in England and Wales (The Guardian, 14 June 2002). No place on Earth is free from this fact. According to UNODCP (1997: 124) the world trade in illicit drugs was “about the same size as the total international trade in textiles”, and larger than iron steel and motor vehicles in 1994.

Thus, crime is a matter of everyday life; people commit crime. Some do not but even they, almost certainly, know at least one criminal very well or are victimized. In other words, as mentioned, crime is not a phenomenon that is distinct from us; it is with us and indeed in us as a society and as individuals.

The distorted image of crime is not limited to its physical and conceptual alienation. We usually consider the criminal law as a precaution against *damage to* our society. However, it is really out of our perception of crime that governments use it for the *integrity* of our societies. In fact, “[criminal laws] do maintain *public order* and safety and integrity of individuals (Williams, 1997: 15, emphasis added).

Following from Williams’ (1997) perspective, one may argue that crime is not only about criminals and it has never been so. We need crimes “to conserve not only the safety and order but also the *moral welfare*”, says Lord Simonds (Williams, 1997: 15)

In this regard one cannot be sure that he/she is/was/will ‘*not*’ (be) a criminal because crime is just an ordinary, frequent, dynamic, relative phenomenon in our daily lives. One cannot and should not isolate himself/herself from the conceptualization of crime and from the crowd known as ‘criminals’. We have a lot of misconception of crime and this is the main reason why, initially, we should focus our attention on the problem of *definition* so that at least we know what we are dealing with.

2.1.2. Common Terminology in Social Sciences and Relativity of Crime

If one needs to conduct research on something that is changing unpredictably, that is

vague and having multiple meanings at the same time, it is very hard to deal with it from the academic viewpoint. So we define everything we use.

First of all, the definition of 'crime' should address that it is *relative* as different sets of crimes have existed in different countries and centuries. Especially for a researcher who is doing cross-cultural research, this is an essential recognition.

In fact, crime is not only relative but relative in more than one sense. To Sutherland and Cressey (1970) for instance, it is relative in at least two senses: *legal* and *social*.

We observe many examples of legal relativity in history. For instance, the following have at different times been crimes (Sutherland and Cressey, 1970: 15), but none of them are crimes now:

printing a book, professing the medical doctrine of circulation of the blood, driving with reins, sale of coin to foreigners, having gold in the house, buying goods on the way to market or in the market for the purpose of selling them at a higher price, writing a check for less than one dollar.

While explaining 'social relativity' on the other hand, Sutherland and Cressey (1970) focus on white-collar criminals. "[Unlike] regular police, expert investigators must deal with the subtler forms of fraud which flourish in many areas of business ... [they are] interested in making subtle fraud 'real crime', what has been mere chicanery is *interpreted* and dealt with *as crime*" (Sutherland and Cressey, 1970: 15, emphasis added).

The fact that crime is a relative phenomenon is sometimes confusing and unexpected. If, for instance, you are living in eastern Connecticut, US, you can be sentenced to death but if you drive a few kilometres to pass into Western Rhode Island and commit the same crime, you would not. A few kilometres, a few days (i.e. before the enactment of a law incriminating certain acts) are sometimes more than enough to experience the relativity of crime. Nevertheless, in a '*social*' sense (in comparison to '*legal*' relativity) it is very hard to draw sharp boundaries in short spatial or time distances. For instance, if sodomy is a crime in a culture, it usually takes centuries for that culture to de-criminalize it, to see it as a normal act; legally though, it may take a few days or weeks to criminalize or de-criminalize certain acts. Following this argument, one can confidently claim that there must be disparities between the definitions of society and government in every country and between countries and

societies. Thus the consequences of the relativity of crime are immense, widespread and usually overlooked.

Rather surprisingly, this discrepancy may even exist at the most extreme points: existence and non-existence of the phenomena⁶. Let us take the concept ‘state crime’ (Doig, 2011) for instance. No government has an incentive to create a legal definition of crime to incriminate itself but the society does.

This discussion forces us to ask why it is crime there and why not here or why it was crime then and why not now? Are our definitions of crime problematic or theirs? Is there a universal, an ideal set of definitions of crime? If there are no agreed-upon crime definitions, what is the point of studying it in the first place?

Maybe the most important of these questions for our study is ‘what do those differences tell us intellectually about social phenomena?’; ‘is there a generalizable, consistent truth in this relativity?’ and our answer, as will be clear at the end of this dissertation, is ‘yes’, ‘indeed we can lay down the fundamental characteristics of this chaotic phenomenon despite its relativistic nature’.

After the discussion of relativity, now it is time to define our perspective, which will put our study into a framework of its own and will force us to be consistent with its understanding of the universe of financial crimes.

2.1.3. Seeking a Common Ground for the Definition of Financial Crimes

The consequences of different interpretations in the fundamentals of a given study are countless and of paramount importance. Even positive sciences are prone to this definitional problem and the *perspectives* play a crucial role in the defining process.

To give an example, if one asserts that the shortest distance between two dots in the space is a *line* he/she may be a *classical* physicist and what he/she says is true but if

⁶ There is a famous parable character in Turkish humour, Nasreddin Hodja, whose story explains the issue in a funny way: A small child and this old fellow go to the city with a donkey, all walking.. and they hear people saying: “Look at these guys, they have a donkey but they are walking”. Holding the child in his arms Hodja gets on the donkey. After a short while, they hear people saying: “Look at this poor donkey, these people are abusing it,” and he gets down and they carry on walking until they hear other people saying: “Look at this nasty boy, he makes this old man walk”, then they change places until they hear some more people saying: “Look at this bad man, he is in comfort but he makes this little child walk”. They become angry at all these people and Hodja finally shoulders the donkey. Funny, but serious! Crime definitions may be relativistic even at an individual level.

the distance is said to be a *curve*, then, it is more likely that he/she is a quantum physicist⁷ and again, what he/she says is true. Despite the identicalness of the phenomenon observed, conclusions may vary a great deal and implications are dramatic enough to baffle researchers.

It is not hard, hence, to guess the consequences of this problem in the social sciences. Criminology, being one of them, is even more vulnerable to the definition problem. Crime, for instance, is defined differently by different countries and different political and economic systems, as well as by different disciplines, although they observe the same phenomenon: ‘certain human behaviours’.

Thus, for the consistency of this study, we need to make our observations from the same reference point, and while choosing our reference point out of many, we had better embrace the notion of the excellence of it over others. This is a must for practical purposes. In physics, light speed perspective is very well known but impossible to attain. For that matter, we should be aware that applicability of some ‘perspectives’, although valid in theory, may not be always possible. This is a good reason to prefer one reference point and disregard others.

The perspective taken in this study is the ‘rational’ perspective as we evaluate every loss and gain of all the principles, applications, rules of certain financial systems. This study stands at equal distances from socialism, capitalism and Islamic systems of economics and finance. We assume that all of these financial systems may have relatively worse and better characteristics than others. As for the relativity of the concrete comparison group (certain financial crimes), this study has carefully chosen a group which is officially and legally defined as crime in all of these financial systems.

The following section, hence, aims to provide a conceptual definition of ‘crime’ within this framework.

⁷ While both arguments are correct the first one is of classical linear mathematics and (Newtonian) physics and the second one is of modern, non-Euclidian mathematics and quantum (Einsteinian) physics.

2.2 DEFINITION AND CONTEXT OF ‘CRIME’

Interestingly enough, answering the question ‘what is crime?’ is rather difficult (Tappan, 1960). Indeed, if there are few things that criminologists are in consensus about, the difficulty of defining crime is one of them.

2.2.1. The ‘Word’ Crime

The word crime is from the 13th century French word *crimne* and the Latin word *crimen*, gen. *criminis*; which literally means, ‘sinfulness’, ‘accusation’, ‘charge’, ‘indictment’, ‘fault’, ‘offense’ (Crime, 2011) but, as the French root (*crimne* = sinfulness) suggests, there has been much equivalent and mostly religious vocabulary in existence far earlier than the 13th century about crime, as “all human societies ... held notions of right and wrong” (Schmallegger, 2009: 125).

Varieties of the definitions of crime are prevalent in criminology and these varieties correspond to different perspectives on defining crime. Every academic field, for instance, defines crime in a way that is comfortable for it (Tappan, 1960) and all legal, political, administrative systems, likewise, have different definitions of crime.

There seem to be two major reasons for the various definitions of crime. Firstly, crimes are formulated by many nation states with different world views as well as through a variety of cultural, political, economic, religious, historical, spatial *etc.* reference points. Secondly, they are formulated by “authorities of significantly different training and orientation” (Tappan, 1960: 3).

For instance, socialist societies consider crime as a by-product of power relations, while medical, clinical people see it as a ‘pathology’ with biological and psychiatric reasons behind it; and for sociologists it is just anti-social behaviour; for still others like legal professionals, however, it is, merely, breach of law.

Thus, one needs to point out the *context* before giving the definition of crime, as Tappan (1960:7; emphasis added) does: “*from the viewpoint of ideal policy formulations*, crime is in fact what the state through its legislature and courts says it is”.

For criminology, it is fortunate that there exists a neat, succinct collection of the perspectives or *approaches* in the literature. Although the number of approaches is not

certain (Hale et. al., 2005; Siegel, 1995; Tappan, 1960; Sumner, 1906) the most encompassing one, among those, is Hagan's (1987) categorization; but we need to make additions to his classifications in order to make it all encompassing.

2.2.2. Approaches to the Definition of Crime

Crime can be defined in different ways to correspond to different moralities, relative understandings of societies, and perceptions. Defining it *legally* is one of them. In this sense, socialist, capitalist and Islamic governments have different preferences for choosing legislation. That is why some religious books were forbidden in the Soviet Union, *Das Kapital* in the USA and sex magazines in some Islamic countries, but not vice-versa. This relativity is an example of the legal approach only but John Hagan (1987) provides six more different possible approaches to defining crime relatively:

- (i) The Legal-Consensus Approach
- (ii) The Socio-Legal Approach
- (iii) A Cross-Cultural Approach
- (iv) A Statistical Approach
- (v) The Labelling Approach
- (vi) A Human Rights Approach
- (vii) A Utopian-Anarchist Approach

Nonetheless, this list is not complete without 'a religious approach' as the 8th category, because a huge number of people are either totally religious or ideologically affected by religious dogma and their definition of crime is significantly different from the other seven approaches listed by Hagan (1987). The following sections provide details of these categories.

2.2.2.1. The legal-consensus approach

Defining crime as a derivation of law makes criminology a derivative science which has to lean on another: 'law', but this is the prevailing perspective across the world.

Tappan is the forerunner of this approach, but some describe this approach as "esoteric" (Zedner, 2004: 61; Schur, 1969: 10), because "no criminal law [means] no crime" and because this definition does not "help tell us why certain conduct is

defined as criminal” (Zedner, 2004). According to Tappan, crime is “what the state ... says it is” (1960: 7). “Crime is an *international action* in violation of the criminal law ... committed without defence or excuse and penalized by the state” (1947: 100, emphasis added).

Williams (1997: 11) is another example who primarily values the authority of the state that is eligible to enact law and thus, crime. Tappan sees law as a ‘reliable guide’ to what is consensually defined as criminal in any given society (Hagan 1987: 43). This view is inherent in criminology, though the criminologists are aware of the negative consequences (Newburn, 2007: 8). The legal perspective, however, envisages a static society and circumstantial (Ritchie, 1986) crime and does not take into account the fact that the criminal legislation process, which contains onset, aftermath, revision and abrogation of criminal law, is a living thing.

It should be noted that financial crimes are more prone to the negative consequences of a static view because they are most of the time self regulated, due to the governments’ crawling efforts to adapt legislation to ever changing market mechanisms, structures and concentrations of national economies.

It is hard to scientifically make sense of crime when it is legally defined because scientists, then, would let politicians decide on what they should be studying as crime. This is the correct definition of law and not criminology, as criminology cannot be relegated to law due to the fact that it is a scientific, multidisciplinary field of study which assumes a stable essence of deviant behaviour. Law does not necessarily share this assumption (Dönmezer, 1994).

If we rely on Tappan’s definition of crime and begin studying a specific deviant behaviour, all our efforts would be obsolete when governments decide to abolish legislation. This approach, thus, seems to be putting government and politics in front of the science. It should be the science which should be shaping the governmental policies and not vice-versa. Besides, legal definitions do not clearly reflect social consensus on the definitions of crime. For instance (Hagan, 1987: 42 emphasis added):

Federal criminal code in the United States [was] widely regarded as being *remarkably outdated* but nonetheless [was] stubbornly resistant to change ...

Congress [was] on record as seeing the need for a new code, but unable to agree on what exactly that code should contain.

Sovereign political societies are self-sufficient but only partially in consensus Williams (1997: 15). So is the legislation.

Crime is geographically varied and not uniform across place and time, but if we ignore the political dimensions of law, we have to deny the soft, incremental, spatial move of crime along with national and international borders, as a social phenomenon. From the legal perspective, researching about transnational crime would not be scientifically viable because some of the adjacent governments would be black holes on the international narcotic routes such as the Netherlands.

Hagan (1987: 43) agrees that: “A salient difficulty with Tappan’s approach is that it systematically ignores much of what many criminologists today wish to study, behaviours that are on the margins of criminal law and rarely prosecuted, including such things as unethical business practices and pollution of the environment”.

For specific countries such as the USA, UK, Russia, China, though, claimed consensus in federal and federal-like systems, especially on criminal matters, is not realistic, for which there are reasons. In the USA, every state has its own criminal codes under their own constitutions which are as intellectually far from each other as allowing or banning capital punishment. In Britain; England, Ireland, Wales and Scotland have different social formations and cultures and China, Russia, Germany, Italy, Malaysia, almost all the cases we study, have similar make-ups. Therefore, it is not wise to assume that the criminal codes represent even national consensus about at least some definitions of crime.

Secondly, the major policies of the federal state can change dramatically over time, as seen in the 1990s by ‘tough on crime’ policies which filled up otherwise relatively empty prisons rather quickly. In the USA, matters of criminalization or decriminalization like same-sex marriage, pro-choice (abortion) vs. pro-life, marihuana use, determine the governing parties with a small percentage and this has very little to do with consensus on the definitions of crimes. Consequently, a legal-consensus approach to defining crime is not viable for our cross-cultural study.

2.2.2.2. A cross-cultural approach

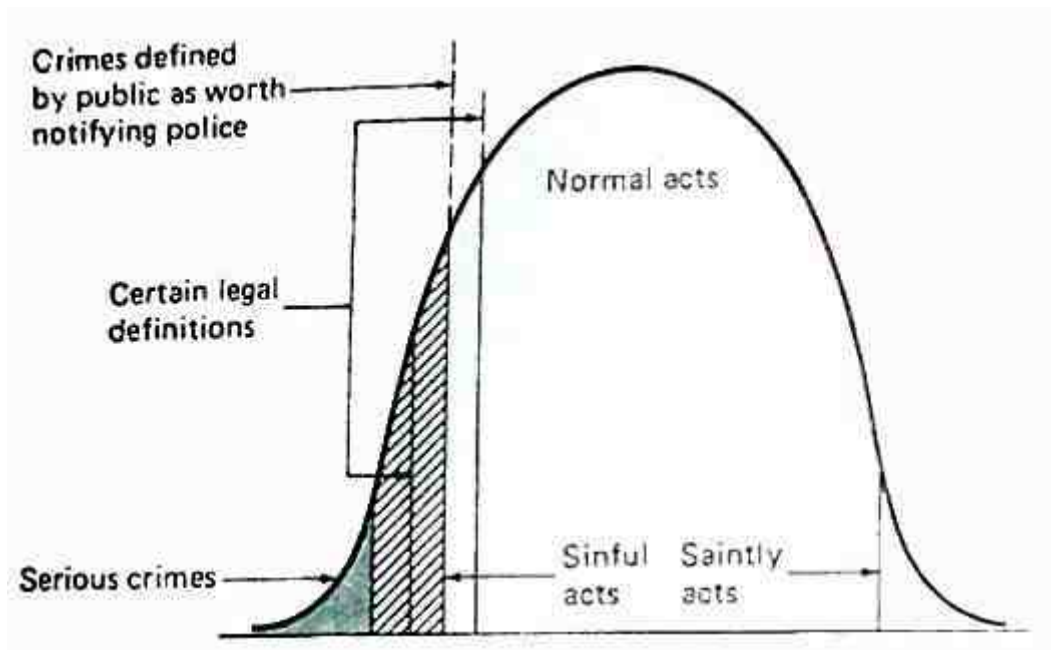
Sellin (1938) looks at the society as not a single entity in consensus but a mixture of cultures making it up, and he argues that these cultures have their own rights and wrongs, which form the notion of '*conduct norms*'. "For every person, then, there is, from the point of view of a given group of which he is a member, a normal (right) and abnormal (wrong) way of reacting, the norm depending upon the social values of the group which formulated it" (Sellin, 1938).

When we attempt to define white collar crimes, by means of this perspective, we come up with two major cultures in the society that are in conflict about their collection of conduct norms, the rich and the poor. For the first, asserted financial crimes are either minor, unethical behaviours or necessitated by a fiercely competitive and global business environment. The second group claims that those behaviours of the first group should be criminalized and punished.

2.2.2.3. A statistical approach

Wilkins (1964: 46) suggests that "at some time or another, some form of society ... has defined almost all forms of behaviour that we now call 'criminal' as desirable for the functioning of that form of society" and "it may be supposed that the model given by the normal frequency distribution shown in this chart represents the distribution of ethical content of human action." (Wilkins, 1964: 47). Wilkins gives the following behavioural distribution depicted in Figure 2.1. By this figure, Wilkins (1964), unlike Durkheim, shows that criminal behaviour is 'not' normal because this behaviour is at the extreme end of the normal distribution. Crime is (or is seen as) an extreme act in its environment.

Figure 2.1: Statistical Approach for the Definition of Crime



Source: (Wilkins, 1964: 47)

However, “a purely statistical approach underestimates the role of societal groups in *selecting* from infrequent acts those that are considered criminal” (Hagan, 1987: 45). So, the mechanisms of selection, despite their paramount importance, are disregarded by this method. We need to understand the reason why those societal groups had chosen certain behaviours in order to answer the ‘why’ question about committing crime. We cannot simply override it if the aetiology of crime is an issue for us.

2.2.2.4. The labelling approach

Becker is the doyen of this approach and his approach affected criminology and criminal justice greatly, as well as political science. In his view, ‘deviant’ is “the one to whom that label has successfully been applied; deviant behaviour is behaviour that people so label” (Becker, 1963: 9).

In Becker’s approach, if there is a label there should be some ‘labellers’ and ‘labelled’ ones and their interrelations should be very important at the time of the definition process. However, it is also correct that “this definition considers crime as an “all societal response and no deviant stimulus” (Bordua, January 01, 1969: 210), and “characteristically assumes a passive subject plays little or no part in eliciting a

response” (Hagan, 1973: 210), which is hard to accept for *e.g.* serial killers. In this perspective, crimes are ‘*not behaviours but labels* that are attached to certain behaviours of people’. Similarly, according to Salinger (2005: viii) crime is “viable” only when “committees perceived of themselves as criminals”.

This is an unpleasant fact for this study though, because white collar criminals are the same ones who have the power to attach the crime label and, as Ernest Burgess (1950) and Geis (1967) showed, they do not see themselves as criminals. If we define crime by this approach, financial crime would become even less detectable, as such crimes can be easily justified by the ‘committees’ as not crime.

2.2.2.5. A human rights approach

As the name suggests, the human rights approach asserts that “all persons must be guaranteed the fundamental prerequisites for well-being, including food, shelter, clothing, medical services, challenging work and recreational experiences, as well as security from predatory individuals or repressive and imperialistic social elites.” (Herman and Schwendinger, 1975: 145)

Serious, inherited, ‘*social conditions*’ such as (Herman and Schwendinger, 1975: 147):

imperialism, racism, sexism and poverty are abbreviated signs for theories of social relationships or social systems which cause the systematic abrogation of basic rights, then imperialism, racism, sexism, and poverty can be called crimes according to the logic of our argument.

Herman and Julia Schwendinger (1975: 148) protest price-fixing as follows:

Isn’t it time to raise serious questions about the assumption underlying the definition of the field of criminology while agents of the state can, with impunity, legally reward men who destroy food so that price levels can be maintained while a sizable portion of the population suffers from malnutrition.

This approach has not been adequately developed in the literature, which has not left much scope for research.

2.2.2.6. A utopian-anarchist approach

For Taylor *et al.* (1973) “deviance is normal ... The task is to create a society in which

the fact[s] of human diversity ... are not subject to the power to criminalize” . Humanity is “recognizing that diversity is critical to earth’s survival and to human survival. As these continue, appropriation, crime, and prospective legality will diminish, and in their place will be a continuous process of anarchy and justice” (Tiftt, 1949: 400).

According to Hagan, the human rights approach should warn us because of “the possibility that some behaviour (*e.g.* disorder offenses, political crimes, and some property offenses) may be called ‘deviant’ or ‘criminal’ because they are offensive or threatening to [a] privileged segment of society” (Hagan, 1987).

This approach, however, fails to recognize that personal freedoms do overlap and that one cannot justify serious crimes like murder, rape *etc.* as politically incorrect behaviours to be identified as crimes. This is a rather naive approach, naive, in terms of the nature of human-beings.

2.2.2.7. Religious Approach

“Substantive rationality cannot be measured in terms of formal calculation alone, but also involves a relation to the absolute values or to the content of the particular ends to which it is oriented” (Weber, 1976: 185). These orientations of rationality could be many different phenomena but an important one of them is the belief systems of the individuals. Criminology seldom refers to such rationalities despite the fact that many people are affected by these rationalities while they are restraining themselves from crimes or while encouraging themselves. Hagan (2010) uses the term ‘demonological theory’ to refer to spiritual explanations of crime but in his early works (Hagan (1987) does not include a religious approach in his list of approaches to defining crime. However there exist some cultures who define crime very statically and according to religious scripts (Qur’an, Bible, Torah etc.) and religious philosophies (*i.e.* of Confucius, Buddha) and not necessarily with reference to bad spirits.

Sumner (1906) informs us about two Latin phrases: ‘*mala in se*’ behaviours that seriously violate a given social group’s values and are wrong in and of themselves and ‘*mala prohibita*’, considerably less serious and time-honoured customs, traditions.

Those who argue for the existence of *mala in se* offenses ... usually point to some fundamental rule, such as religious teachings (the Ten

Commandments, the Qur'an and so on), to support their belief that some acts are inherently wrong. Such a perspective assumes that uncompromisable standards for human behavior rest within the very fabric of lived experience. (Schmallegger, 2009: 125)

2.2.2.8. The socio-legal approach

Society's own perception and understanding of crime is at least as important as the legal definition of crime, because "law is often nullified in practice by lack of sufficient public or official support. This has been the experience with ... innumerable pieces of minor legislation" (Tappan, 1960: 6-7).

One cannot even declare that [legal] crimes are always more serious in their effects either on the individual or on society. For example, the negligent manufacture and marketing of a product which turns out to be dangerous may be far more injurious to both individuals and society than the theft of a pencil, yet the former would normally only constitute a tort whereas the latter is criminal. There are similarities: each is a wrong, each is a breach of a legal obligation or rule. (Williams, 1997: 11)

This approach facilitates studies of more than one jurisdiction, culture, society, class, belief system and is a product of white collar crime studies. Its theoretician, Edwin Sutherland, earlier president of the American Sociological Society, is the leading figure of the applied sociology of crime. According to him, "just as there is justification for writing of 'crimes known to the police', and 'unsolved crimes', there is justification for writing of 'unapprehended criminals' and 'criminals at large'⁸ (Sutherland and Cressey, 1970: 18). This definition is similar to the following analogy: just as there is justification for 'pending legislation in senate', there is justification for the 'predicted/suggested crime definitions of criminology' *before* the legislation. Sometimes, governments even choose to punish crimes before they define them. Maltz (1985) gives 'organized crime' as an example.

Sutherland's definition of white collar crimes is a nice example of 'predicted' or 'suggested' crime because there was no definition of white collar crime (thus no official crimes and criminals of such kind) before him. After his research though, it was proven that such crimes were existent and pervasive.

Thus, he has proven that criminologists should not feel bounded by legislation and

⁸ See Donald R. Cressey, "Foreword" to Edwin H. Sutherland, *White Collar Crime*, new ed. (New York: Holt, Rinehart and Winston, 1961), pp. 4-8

that “the criteria which have been used in defining white collar crimes are not categorically different from the criteria used in defining other crimes” (Hagan, 1987: 43). He has proven that “*it is possible to consider “criminal” many unethical business practices handled in the civil and criminal courts*” (Hagan, 1987: 43, emphasis added).

According to Tappan (1960: 6) though, crime as an antisocial behaviour “is overly simple, for conceptions of what is antisocial vary greatly among reformers and moralists”.

It’s highly desirable that there be real consensus on the dangerousness of the conduct involved and the appropriateness of applying criminal sanctions for purposes of control; it is not reasonable officially to penalize a conduct that is commonly approved or that is not in fact injurious to important social interests (Tappan, 1960: 6).

Tappan has a valid point here and he is right that we should not punish deviant behaviour officially if there is not a *firm consensus* about its harm. However, applicable laws of any given society have the same flaws Tappan complains about. Current laws have been legislated by the considerable efforts of famous scholars⁹ and high officials¹⁰, among whom the dichotomy of ‘reform’ and ‘morals’ prevails. Thus, since the best alternative has the same flaws, we should not worry much about this criticism.

Besides, even if we contemplate the formation of political consensus on society and the democratic foundations of it, we should recognize that reformist and moralist representatives are either totally excluded¹¹ or represent their community only partially at the polls and legislation ballots.

When we ponder on the implications of the legal approach in various economic systems we have to accept that different but similar legal definitions exist for each and every one of them. For capitalism and socialism and Islamic finance, legal codes initially existed in the books and speeches of founding fathers which have then been codified by politicians who are taught their definitions.

⁹ i.e John Stuart Mill, Adam Smith

¹⁰ i.e George Washington, Alexander Hamilton

¹¹ Rules such as “winner gets all”, “MPs chosen by parties rather than electorates” can be considered examples of this notion.

Besides, the social fabric of the society indeed precedes the legalization procedure. No one can enact and apply a law which has no acceptance and no relevance in the society.

Consequently, Sutherland's approach is the best approach for the purposes of this study and thus it will be deployed throughout this text. However, even though we have not chosen to use the previous legal-consensus approach, this study would not be affected much by the shortcomings of it because the specific financial crimes we choose are agreed upon by almost all of the financial systems and jurisdictions we study with small variations.

2.2.3. Socio-Legal Approach to Crime: Explained in Depth

Although at first look there seems to be a certain approach corresponding to every financial system (i.e. utopian-anarchist approach to socialism; religious approach to Islamic finance; legal approach to market finance *etc.*), multiplicity of reference points would be of no use for a scientific study, nor would choosing one of them and judging others by using its criterion be objective. Still, these pairs notify us of the underlying relativity between economic systems and choosing the appropriate reference point is an issue.

How to define crime? "There is an element of fashion involved in attempts to answer these fundamental issues, but the underlying rationale is largely governed by the traditional *ethos* and *ethics* of the society" (Williams, 1997:14). The reasons behind the variations in definitions can be the notion of 'crime as a proviso' but this study focuses on certain behaviours of people that are defined either as crime or as very unethical acts in the compared political economic systems and the countries deploying them because "we need a definition that considers behaviours that are both actually and potentially liable to criminal law" (Hagan, 1987: 49), because "scientists cannot afford to permit non-scientists to fix the terms and boundaries of the scientific study of crime" (Sellin, 1937: 114).

It should be noted that the socio-legal approach – unlike the cross-cultural and statistical approaches - is subtler and more easily quantifiable and that contributions to and participation of other disciplines, like law, sociology, psychology and politics, are more available in this approach as well.

According to Williams (2012: 26), new parameters like “economics, politics, public administration, public order and public safety all play a part” in the formation of recent crimes like “modern social welfare, moral improvement and traffic offences”. In this sense, choosing the socio-legal approach should yield even more common features between the subjects of the research compared to all other perspectives.

Morrison (2002: 219) agrees that this is the case especially in the era of very frequent law-giving and law-repealing, because “[m]uch law-making follows the social and political agendas of elected governments”, and gives an example from the US: “Legislators can get it wrong, of course. The prohibition law in the US in the 1930s, banning alcoholic beverages, met widespread opposition and had to be repealed”.

In a similar vein, books such as *The World's Stupidest Laws* (Crombie, 2005) claims that it is not always wise to rely on legal codes as the definitions of crime because they may not reflect even a considerable consensus in the society.

2.3. DEFINITION, SCOPE AND CONTEXT OF ‘FINANCIAL CRIMES’

Before delving into the definition of ‘financial crime’ literature, it is wise to weed out the similar and confusing periphery terms. This is indeed a necessity because there is a lot of confusion about the terminology in the literature and financial crimes are closely related to other kinds of economic crimes.

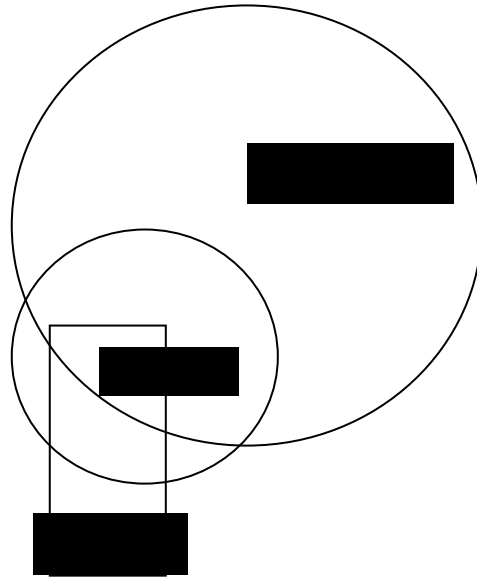
In the classical literature of criminology, criminal behaviour seems to be confined to working-class people only. This is a delusion and an accumulating number of criminal corporations and financial scandals like Enron, WorldCom, Madoff, Barings, BCCI, Daiwa, Sumitomo, Credit Lyonnais, Bre-X, Lloyds, NASDAQ, Savings and Loan, Parmalat *etc.* clearly show that crime is not confined to a specific social class.

Newburn (2007: 373) agrees that criminal statistics that are bent in favour of the powerful is a “false picture”, the reason for this picture is “the unequal application of the criminal law” because white collar people are “secure in [their] quilted armor of lawyer-spun sophistries” (Ross, 1907: 32). Hence, although there is not a consensus about the social status of financial criminals, most of the respected scholars (i.e. Coleman, 1994; Sutherland, 1945) agree that the context of financial crime is best understood by focusing on economic crimes, elite deviance, white collar crimes and

the like.

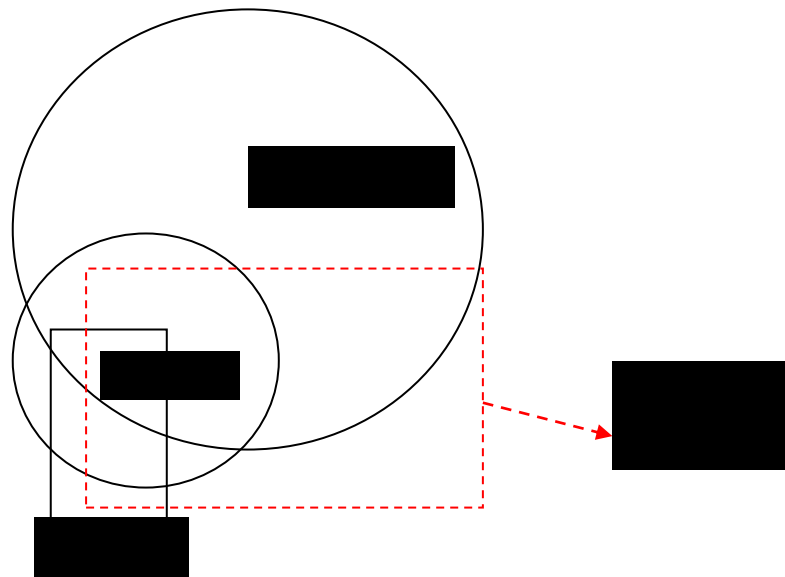
We may then put financial crime in this depiction as in Figure 2.2 and spot the relative position of financial crimes in this depiction (Figure 2.3):

Figure 2.2: Overlapping Terminology of White Collar Crime



Source: Coleman (1914)

Figure 2.3: Locating the Relative Place of Financial Crime in the Terminology of White Collar Crime



Before focusing on the definition of white collar crime, it is reasonable to discuss why it is not adequate to choose one of the titles below as the foundational basis of our study.

2.3.1. Alternative Definitions of Financial Crime

Similar to any other social science concept or paradigm, there is no consensus on the alternative definitions of financial crime, as each discipline and sub-discipline produces their own definition. Due to limited space, this section provides only a general understanding for the definition of financial crime categories.

2.3.1.1. Organizational crime

Organizational crime “refers to crime committed on behalf of and for the benefit of a legitimate organization (Hagan, 2010: 226). These crimes are “perceived to be less ‘criminal’ than those of individuals” (Croall, 2001: 12) and often “against institutions rather than people” (Abercrombie *et al.*, 2006: 455).

When organizations are economically motivated we name their crimes ‘corporate’ or ‘business’ crimes. Hagan (2010: 251) believes that being an employee of a given organization is a requirement for naming culprits’ behaviours as ‘organizational crimes’ because this term refers to crimes “by businesses or officials on behalf of the employing organization”. Box (1983) and Doig (2011) include ‘bureaucracies’ as criminals or victims of such crimes as well. This description can be extended to include crimes that are committed by individuals and organizations that are not employed but motivated by criminal organizations as well.

“Organisational culture and practice are important elements in understanding corporate” (Newburn, 2007: 376) and financial crimes in all capitalist, Islamic and socialist systems. Even in socialism, organizational crime is almost completely equal to corporate (business) crime because there are no private corporations in socialist systems.

Organizational crime is not chosen as the base definition of speculation, manipulation, competition crime, fraud and tax evasion because we are not interested in the group behaviour of people in a formal setting. Instead we seek to know whether we may

come up with the individualistic foundations of financial crime, because financial criminals are committing crime by themselves, for example Leeson, Madoff *etc.* There are other financial crimes such as Enron, Arthur Anderson *etc.* but even in these situations crimes were not planned and executed by the whole organization, the whole business, but rather a few CEOs in a group deceived others most of the time.

Yet, one had better differentiate between organizations with mistakes and misdemeanours and organizations with a dedication to crimes. The principle could be focusing on their goals, because criminal organizations have unstated goals along with their official, stated goals (Schrager and Short, 1978) and these goals mostly define what they really are.

2.3.1.2. Organized crime

White-collar-financial criminals may sometimes have connections with organized crime because their crimes “include prostitution, gambling and obscenity and supply of illegal drugs and alcohol” (Scheb, 1999: 232).

Violence is usually the distinguishing parameter between organized crime and white-collar-crime and by simply changing the emphasis from ‘work’ to ‘crime’ we switch between the definitions of *organizational* and *organized* crimes respectively which leaves us with “work as crime” Ruggiero (1996) versus ‘*crime as work*’.

When the criminals are still organized but not legally recognized, we name them ‘organized’ criminals. This type of crime is not a one-instance crime occurring with random frequency but a “continuing criminal enterprise that rationally works to profit from illicit activities that are often in great public demand” (Albanese, 2004: 3).

Organized criminals commit mostly economic and not financial crimes. The most ‘financial’ crime they commit is often money laundering and some other illegal transfers of money. However the literature on ‘financial’ crime usually focuses on these and some other, relatively unimportant, non-white-collar crimes of organized criminals as if they were financial criminals.

Actors of organized crime include “corrupt business executives, members of the professions, public officials, or members of any other occupational group, in addition

to the conventional racketeer element”. (National Advisory Committee on Criminal Justice Standards and Goals, 1976: 213).

2.3.1.3. Political crime

In general, crime itself is “highly politicized” (Newburn, 2007: 12), but political crime to Hagan (2010: 255) is a criminal act, committed for ideological purposes. In this sense, financial crime can be political crime at the same time as well.

Definitions of political crime may seem to be very distinct, even unrelated to the discussion of the central theme of financial crime and white collar crime. Nevertheless, all the terminology we have discussed up to here reduces to political crime in socialist countries. This is why political crime is comparable to white-collar-financial-crime in our comparative perspective.

It is possible to categorise political crime according to the central political figure: the government. Governments can be either perpetrators or victims of political crimes. As a perpetrator, the following crimes can be committed by governments: state crime (Doig, 2011), secret policing, human rights violations, patriarchal crime, genocide; while as a victim, governments can face the following: protest and dissent, social movements, assassination, espionage, political ‘whistle-blowing’, terrorism (Hagan, 2010: 259-290).

Scarcity of publications on both subjects is another similarity between political and white-collar-financial crimes. Up to 2010, Hagan (2010: 256) enumerates only twelve publications about political crimes.

2.3.1.4. Cyber crime

“The relationship between crime and technology is by no means new and that the potential for creating harm never seems to be far away from any apparently beneficial technological development” (Wall, 2007: 12).

According to Wall (2001) there are four types of cybercrime: cybertrespass, cyberdeceptions and thefts, cyberpornography and cyberviolence. Under cyberdeceptions and thefts, Wall (2001) lists stealing money or property (*e.g.* credit card fraud) and intellectual property violations, but such crime can be more severe and can affect the whole market because “[t]he typical picture of frantic trading on the

floor of stock exchanges is now becoming outdated, with the rise in electronic trading systems, which facilitate global trading. The New York Stock Exchange now handles 40 per cent of its volume through SuperDOT, its computerized trading system” (Morrison, 2002: 316) since 2000.

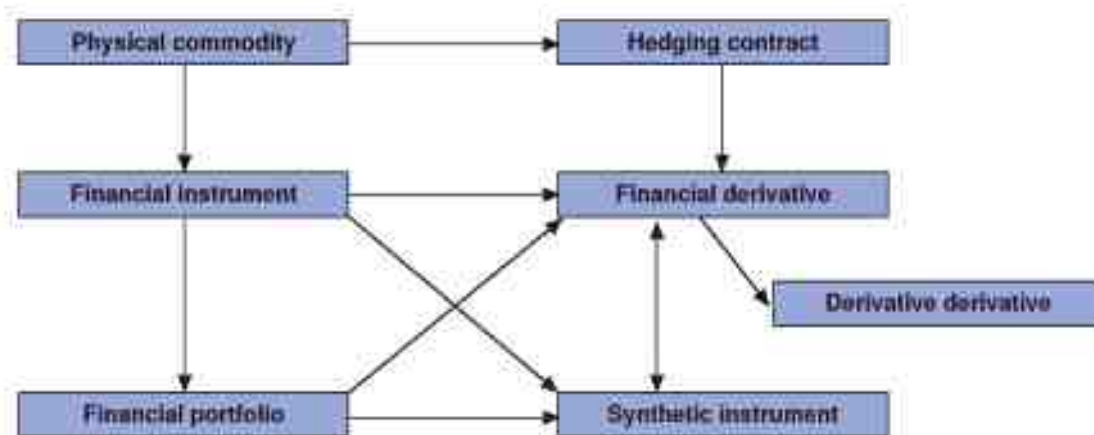
In fact, after 2010, The New York Stock Exchange (NYSE) has become obsolete because of these electronic trading systems and many banks and financial corporations have abandoned the place because the ‘money’ is indeed the electronic money in recent decades and the crime of illegally reaching it must involve cybercrime.

“The advent of e-commerce, which facilitates almost instantaneous securities transactions around the globe, benefits investors, but is also vulnerable to market abuse” (Morrison, 2002: 317).

Figure 2.4 shows how intangible the money has become, ultimately making it possible for it to be processed by electronic means only. Even some entities such as the OECD (2002), have written about networks as markets or vice versa, markets as networks in the new era of electronic money.

Obviously, in such a world, computer illiterate people, usually blue-collar, or computer literates with no access to certain IT facilities of finance, will have no or considerably less opportunity of committing financial crimes and thus building a more advanced, derived form of white-collar crime, probably ‘gold-collar’ crime. One of the main reasons is the level of abstraction in financial markets and instruments as shown in Figure 2.4.

Figure 2.4: Growing Abstraction of Market Instruments



Source: Global Electronic Finance (in OECD, 2002)

Nevertheless, scrutinizing financial crime with a focus on electronics and information technology perspectives would produce more technical results and not be appropriate for a political economy research project.

2.3.1.5. Economic crime

Economic crime is not a specific crime but a criminological term to name a category of crimes, which includes not only both commercial and financial crimes but white-collar and working-class (or blue-collar) crimes as well. In this sense we may argue that the financial white collar crime that we study in this research is part of economic crime because financial markets benefit from derivative markets of the economy and they belong to the economic sphere.

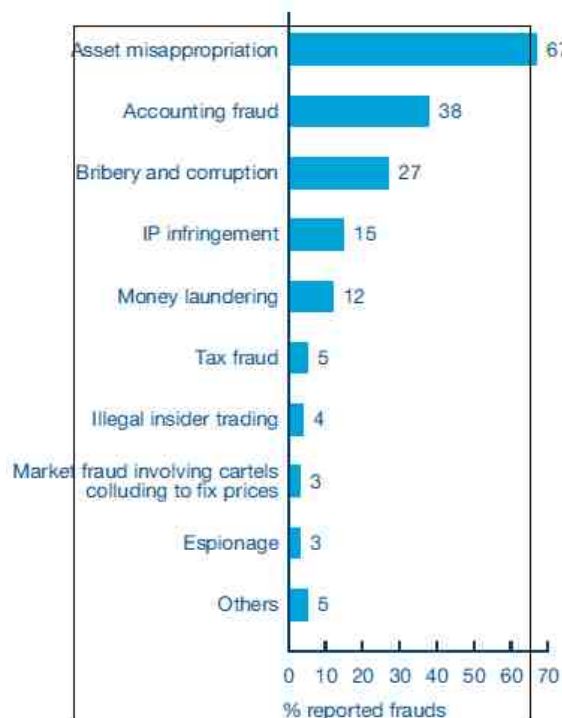
It should be noted that trading crime, money laundering, drug trafficking, selling to/buying from under-aged children, environmental crimes, labour crimes *etc.*, while being distinctive in nature, can be listed under economic crime.

The literature indicates that there are misconceptions and misunderstandings about economic crime. The term is, for instance, used in place of white collar and corporate crime most of the time. For instance, Sjögren and Skogh (2004: 1) define it as a “crime[,] committed to gain profit within an otherwise legitimate business”. This is the exact definition of corporate (business) crime but the macro nature of the term

suggests something more general than this. Using this term as a synonym of corporate crime causes confusion, terminological contamination and inability to name all encompassing 'economic' crimes.

Sjögren and Skogh (2004: 1) use "illegal pollution, brand name infringement and tax evasion" as examples of economic crime. Price Waterhouse Coopers, on the other hand, correctly lists a mixture of crimes from organized crime to occupational crime as well as financial and corporate crimes under the same term: "asset misappropriation; accounting fraud; bribery and corruption; IP infringement; money laundering; tax fraud; illegal insider trading; market fraud involving cartels; colluding and fixing prices; and [industrial] espionage" are listed under the title 'economic crimes' (Price Waterhouse Coopers, 2009: 3).

Figure 2.5: Relative Weights of Some of the White Collar Crimes



Note: IP denotes 'intellectual property'
Source: Price Waterhouse Coopers (2009)

2.3.1.6. Commercial crime

Commercial crime is a narrower term than economic crime (Tiryaki and Gursoy, 2004: 54) and like other definitions of economic crimes, it “can be categorized according to the interests, benefits it aims to protect” (Tiryaki and Gursoy, 2004: 54).

Because of such crimes, suretyship has existed since thousands of years ago in markets of various kinds. In financial markets, surety bonds in the 1900s and fidelity bonds during the industrial revolution have been the by-products of such crimes in the market (Marmor *et al*, 2005: 2). Cheng (2011: 1) counts tax evasion under commercial crimes, which may cause some confusion in the literature but obviously many of the financial crimes are commercial as well.

2.3.1.7. Professional (occupational) crime

Occupational crime refers to “violations that are committed for self-benefit during the course of a legitimate occupation” (Hagan, 2010: 251) and “to the criminal behaviours of persons within their occupational status” (Clinard and Quinney, 1973).

Such offenders “are frequently committing crime, not taking the law seriously and ethically not condemning their colloquies. They are recidivists but only few of them are prosecuted” (Sutherland, 1956: 93-95).

It should be observed that there are relationships between particular types of crime and some occupations offer greater opportunity and temptation to crime than others. Thus, embezzlement is found very commonly among cashiers and other thefts among clerks and truckers who have access to goods and money. ... An occupation does not directly cause criminality, of course, but whether a vulnerable person will succumb depends in considerable part upon his opportunities rather than upon his motives alone. (Tappan, 1960: 214)

White-collar-criminals, thus, are responsible for most of the professional (occupational) crimes (PWC, 2009). Abercrombie *et al.* (2006) agree that white-collar employees are the ones that commit occupational crime at work

Newburn (2007: 376) distinguishes *occupational* and *corporate* crimes very simply by calling the former as “*crimes by people within corporation*” and the latter as “*crimes by corporations*”. Keeping in mind the unrealistic ‘culprit-organizations’ idea with no real body to suffer, pay or be sorry, one may argue that Newburn’s (2007)

supposedly distinct definitions are indeed identical. However, if we simply focus our attention on the semantics of the words used, we can make the distinction easier. If there are two employees/employers, one working in a non-profit organization or government and the other working in a for-profit organization like a corporation, we could label the former as a 'professional criminal' while labelling the other 'corporate criminal' when they commit crime. By the way, we had better notify here that we could use 'professional crime' for both of the situations when we do not bother with the non-profit or for-profit division of the crimes.

Hagan (2010: 305), on the other hand, argues that "occupational and corporate crimes, together forms white-collar crime". He gives the examples of pilfering and fiddling expenses. His definition is in conflict with Sutherland's (1940) definition. Besides, the literature is in consensus that 'white collar criminals are not unemployed'. If this premise is correct, Abercrombie's and Hagan's definitions are tantamount to saying that white collar crime is equivalent to occupational crime. Moreover, from a pragmatic perspective, it is reasonable to say that when thinking about offending we "must cast our gaze upwards" (Punch, 1996: 1).

Considering an offender as a dynamic agent may help us differentiate the economic crime related terms. If an offender changes his occupation from 'blue collar job A' to 'white collar job B' and commits crimes in both, we accept these crimes as occupational crimes because being a manager is an occupation as well but only the second crime becomes a white collar crime, because of the affluent position of the perpetrator. Similarly, only if the second job B is offered by a for-profit organization can we call the crime committed at the latter job a 'corporate crime'. And if the second criminal goes to a meeting to represent his/her corporation to fix the price of certain goods in the market, then we can call the second crime an organized crime.

From the point of view of the 'institutionalization' of crimes, we may identify the differences in some economic crimes better. If, for instance, a crime is committed in a capitalist or mixed economic system, and the perpetrator is a white collar worker, employed by a corporation, then the crime is a corporate crime while the same crime would be named as an organizational or political crime in a socialist system.

This study prefers to use Sutherland's terminology here because it is suitable to assume that the more we climb higher up in the corporation, the more we come up with people who represent the corporation better.

Despite our efforts at theoretical clarification, "in practice, distinctions between corporate or white-collar crime and other forms of offending are themselves far from clear, and point to *general attributes* rather than specific differences" (Newburn, 2007: 377, emphasis added).

2.3.1.8. Labour Crimes

Corporations are run by labour and most of the people in any given society are employed. One of the main reasons for labour violations is to minimize the costs in market economies, but in socialist economies labour or the wage that stands for it are the whole thing the economy runs on and thus make the only financial crime possible in a socialist system.

In market economies as well, wages are the most costly cost of production and corporations try hard to curb them down sometimes with no caution or care. Indeed there is more to that explanation because discrimination, unfair treatments, sexual harassment, firing without a proper cause and the like are harder to explain by profit motivation, but this portion of the subject is beyond our scope.

Among the kinds of crimes perpetrated by corporations against employees are pretty bloody ones (see: Frank, 1985). Berman warns that the real picture of corporate labour crimes could be more sorrowful because "[c]ompanies' insurance ratings are based on injuries, illnesses and deaths in the workplace and this fact gives incentives to corporations to cover up their violations which make it harder to expose them" (Berman, 1978: 108).

Although researchers report huge percentages and numbers of labour violations in capitalist countries, it would not be wrong to argue that in an economic system that relies solely on labour, one would expect many financial crimes to be either committed by or through labour or through wage manipulations.

2.3.1.9. Corporate (Business) Crime

“The best way to rob a bank is to own one”

William Crawford,
California Savings and Loan Commissioner¹²

Albanese (1995) and Hagan (2010) categorize corporate crime as a subordinate term to white collar crime. Focusing on the behavioural nature of the concept, corporate crime can be defined as “dangerous or unjust actions in the conduct of business prompted by the desire for profits” (Albanese, 1995: 108). In an institutional sense, it is “a type of organizational crime committed in free enterprise economies and thus involves criminal activity on behalf of and for the benefit of a private business or corporation” (Hagan, 2010: 226).

It is mostly unnoticed that corporations cause a lot of damage to societies as well as the benefits they bring. “Business has a dirty side. On those occasions when the veil of corporate respectability and probity is lifted, we are able to witness a world where managers lie, cheat, manipulate, dissemble, and deceive” (Punch, 1996:1). The damage done by corporations is the operating ground of corporate crime researchers.

Clinard and Yeager (1980) conducted the most comprehensive research on corporate crimes, working on corporate crimes charged against 447 of the largest US manufacturing firms. They found that 60% of the corporations were convicted and 42% were recidivists (Clinard and Yeager, 1980: 116). Similarly, according to Calavita *et al.* (1997: 156–157), from October 1, 1988, to March 18, 1992, “more than 1,000 defendants had been charged by U.S. attorneys, in major S and L cases. Of those 580 had been sentenced, 451 (78%) to prison”. So, we may argue that decades after Sutherland, corporate crime was still pervasive.

Corporate crime takes many forms, including “price fixing, kickbacks, commercial bribery, tax violations, fraud against government” (Blankenship. 1995), deceptive advertising, environmental law violations, health care fraud, securities fraud “infringement of copyright, unfair competition, unfair labour practices” (Abercrombie *et al.*, 2006: 455), obtaining property by false pretences *etc.*

¹²Quoted in Pizzo *et al.* (1989: 318).

Organized crime, on the other hand, can be grouped in various different ways but Albanese (2003: 108) presents a succinct one: “administrative, environmental, labour and manufacturing violations, and unfair trade practices”.

Since corporate crime is so pervasive (Sutherland, 1956; Clinard and Yeager, 1980), “[a]ll the other forms of criminal behavior together do not equal the costs of occupational and organizational (corporate) crime” (Hagan, 2010: 251). Compared to their huge, harmful impact, corporate crimes are very superficially enforced and punished in minuscule proportions if punished at all.

Despite growing public pressure for more severe treatment of higher occupational and corporate offenders, the likelihood of prosecution and conviction remains rare. When offenders are convicted, the penalties remain rather minuscule, considering particularly the economic loss to society. High recidivism rates among such criminals continue. (Hagan, 2010: 226)

Thus, in many ways, corporate criminals are invisible in almost all economic and financial systems but only in capitalist economies it is wise to use the adjective ‘corporate’ before the crime types that occur in corporate settings, because using corporate crime as the base term is not appropriate in a comparative study which includes socialism, because socialism accepts no corporation in the sense of the Western World. In capitalist societies such crimes may always appear in political settings (*i.e.* state-corporate crime (Michalowski and Kramer, 2006) or be committed by, for example, individual offenders too.

2.3.1.10. Financial crime

After the preceding discussions on the types of financial crimes, we may conclude that financial crimes can be committed in many contexts and structures and by many different types of offenders but the nature of the crime, that is its involvement with finance, investment *etc.* allows us to combine and analyse them under a single title: financial crime.

Of course there are white-collar and non-white-collar financial crimes but we focus on white-collar financial crimes only in our study, which may appear in corporate settings (as discussed specifically under ‘corporate financial crimes’), political settings (as discussed under ‘political crime’) and by white-collar individuals (as discussed under ‘occupational crime’). We refer to these different types of white-

collar criminals as the three main perpetrators of financial crimes in three main environmental settings, that is, political, organizational and individual or social settings.

2.3.2. Scope of Our Study: ‘White-Collar’ Financial Crime

“Now a very great man once said that some people
rob you with a fountain pen” Bob Dylan,
Talking New York, 1962

The prior section on precisely defining financial white collar crime and spotting its position in the literature is not unnecessary as it secures a correct conveyance of the terminology, an important problem in social sciences (Reynolds, 2006). This research tries to go beyond the restricting ‘dictionary definitions’ and get closer to universal, ‘real definitions’ (Reynolds, 2006) that are missing (Hagan, 1989) in this field, despite the fact that “the most important feature of any scientific term, used to indicate a concept, is the degree of agreement about its meaning, agreement about the nature of the concept” (Raynolds, 2006: 48) especially in a study which spans radically different ideologies such as Capitalism, Socialism and Islam.

Unlike many ‘concrete’¹³ definitions of the ‘crime’ and related terms in Eurocentric literature, ‘abstract definitions’¹⁴ (Raynolds, 2006) were produced by this research in order to accommodate diverse viewpoints in the same scientific study. Realising that ‘crime’ is an ‘abstract’ concept, one could easily spot the consequences of using ‘concrete definitions’ (Raynolds, 2006) of it.

Hence, one needs to be prepared for the hardship of the upcoming chapters by careful, real, abstract definitions. Let us now turn our attention to the inner circles of white collar crime from its outer circles and make distinctions between the ‘financial crime’ and other subordinate terminology of WCC.

The term ‘white-collar crime’ (WCC), as mentioned, was first introduced to the literature by Sutherland in 1939 in his presidential address to the American Sociological Society (ASS) meeting in Philadelphia, Pennsylvania, but before him, there had been some awareness about crime in business: for example by Veblen in

¹³ Referring to their limited applicability over time or place (Raynolds, 2006) such as all legal, biological, social, psychological *etc.* definitions of crime and relevant terminology.

¹⁴ Or “universally applicable” (Popper, 1957). Popper uses the word ‘universal’ to refer to “abstract concepts or statements” (Raynolds, 2006: 49)..

1912.

According to Sutherland, white-collar crime is “a crime committed by a person of respectability and high social status in the course of his occupation” (Sutherland, 1949: 9). Narrower and clearer definitions were possible and were not out of the reach of Sutherland but he purposefully preferred to use broad and all-encompassing definitions for WCC.

Salinger (2005) criticizes this approach and prefers very specific definitions for WCC. He blames unclear definitions and claims that offenders do not identify themselves as criminals because of vague definitions. His definition of WCC is (Salinger, 2005: viii, emphasis added):

Any behavior that occurs in a corporate and/or individual occupational context; and, that is committed for personal and/or corporate gain; and/or, violates the trust associated with that individual's and/or corporation's position and/or status; and that is a violation of any criminal law, civil law, administrative law, rule, ruling, norm, or regulation condemning the behavior.

Thus, Salinger (2005) does not include the social status of the offender in the definition. But Sutherland (1949) does, who is also aware that lower status people could commit white collar crime (Sutherland, 1940: 51) but this is an insignificant factor to him. Salinger (2005: ix) agrees that “given the diversity of the behaviors that have come to be described as white-collar and corporate crime, it is difficult to create a succinct definition without necessarily excluding some of the tangential behaviours”. Therefore, this study accepts Sutherland's definition of white collar crime as “crime in relation to business” (Sutherland, 1956: 78).

Apart from his definition of WCC, Sutherland's studies on the same subject area launched vocal discussions among academia as well. Eventually a plethora of definitions began to emerge in the literature, stemming from the idea of ‘white collar crime’ and making it an umbrella term, covering all others beneath it.

Among these definitions are; ‘corporate corruption’ and ‘abuse of corporate power’ (Clinard, 1990), ‘crimes of the powerful’ (Pearce, 1976), ‘organisational deviance’ (Punch, 1996), ‘occupational crime’ (Quinney, 1977), ‘business crime’ (Clarke, 1990), ‘elite crime’, ‘abuse of occupational trust’ (Shapiro, 1990), ‘state-corporate

crime' (Michalowski and Kramer, 2006), 'corporate crime' (Clinard and Quinney, 1986), 'avocational crime' (Geis, 1974), 'economic crime' (American Bar Association, 1976), 'elite deviance' (Simon, 1999), 'the criminal elite' (Coleman, 1994), 'occupational crime' (Clinard and Quinney, 1986; G. Green, 1990), 'organizations crime' (Schrager and Short, 1978), 'professional crime' (Clinard and Quinney, 1986), 'upperworld crime' (Geis, 1974).¹⁵

There are various categorizations of white collar crime as well. Croall (2001) provides the following one: theft at work, fraud, corruption, employment offences, consumer offences, food offences, environmental crime. Michalowski and Kramer (2006) add 'state-corporate crime' to this list which could include 'state crime' as well.

Overabundance of terminological variations and numerous categorisations after Sutherland is a proof of his success. He has affected criminological thought probably more than any other scholar. He has been the pioneer of sociological theories of criminology as well.

Recognizing his overreaching success, Volk (1977: 13) portrays Sutherland's effect as comparable to the Copernican revolution in sciences and Mannheim (1965) believed that if there were a Nobel Prize in criminology, Sutherland would deserve one for his efforts. He caused a "paradigm revolution" (Kuhn, 1962) because he shifted the pendulum from deprived, poor, working-class crime studies to 'rich and poor', 'upper and lower classes' bilateral studies.

It should, however, be noted that the phrase 'white collar' was not invented by Sutherland. He used an existing term from business. It "is used in the sense in which it was used by President Sloan of General Motors, who wrote a book entitled *The Autobiography of a White Collar Worker*" (Sutherland, 1956: 79). And this term has not been chosen "for definitive reasons but for convenience" and "merely to call attention to crimes which are not ordinarily included within the scope of criminology" (Sutherland, 1983: 9).

Further, in spite of the alleged shortcomings of the term 'white collar crime' it "is shared and understood by ordinary folk as more meaningful than occupational crime,

¹⁵See also: Albanese (1995); Blankenship (1995); Friedrichs (1995); Jamieson (1995); Schlegel and Weisburd (1992).

corporate deviance, commercial offenses, economic crime or any competing concept” (Braithwaite, 1985:3).

Sutherland’s definition has been broadened by later researchers and other middle-class crimes have been included in it by *e.g.* Edelhertz and Overcast (1982). This attempt has overridden the emphasis of Sutherland on the ‘*status*’ of the delinquent, although it was not necessary (Geis, 2007) because lower and middle class crimes were already represented and enforced enough by governments and scholars but the upper class crimes were not. Between these positions at extreme ends, there are others like Nelken’s (1994), who argues that the status of the offender is *partially* important.

Friedrichs (2007: 165) gives a better reason why we don’t need a certain, concrete definition. “[T]he term white-collar crime is best treated as a heuristic term, to which various specific forms of illegal and harmful activity are best viewed as cognate, hybrid, or marginal forms of white collar crime”.

As regards the nature of white collar criminals, they are usually employed and the crimes they commit are related to their profession, but the real distinction is that non-white collar people don't have the means (like knowledge, money) and the proper environment (like position) and certain professions to commit such crimes. One can argue that non-white collar crimes are easily committable by an average person but not white collar offenses, because of the lack of opportunity and ability.

The opportunity to commit white-collar crimes is often determined by one's position in society. One cannot embezzle funds without first holding a position of financial trust, nor can one commit regulatory offenses without holding a particular position in business or industry. Thus, access to financial or governmental or institutional resources provides the opportunity to commit white-collar offences.

Street crimes are characterized by the use of force or stealth, which is required for homicide, rape, robbery, assault, burglary, larceny, or arson. In contrast, white-collar crimes are characterized by *planning and deceit*. Planning and deceit are required for successful conspiracy, fraud, extortion, embezzlement, forgery, or regulatory offenses. (Albanese 2003: 105, emphasis added).

As for the ‘stereotype’ of white collar criminal, it is hard to give a definitive prescription because there are conflicting ideas: “advantaged older men from stable

homes living in well-kept communities” (Weisburd *et al.* 1991: 47) and ‘relatively junior employees’ (Levi, 1988). Newburn (2007), however, agrees with the first stereotype and refuses the second by explaining why it is not the correct picture of junior employees: “in part because they enjoy less protection as a result of their social status, but also because their offending behaviour is often easier to investigate - crudely, their frauds are ‘simpler’ (Newburn, 2007: 388). We may add the implicit hierarchical forcing of junior employees to conduct crime by seniors but not *vice versa*. Leeson, a famous white collar criminal, employed by Barings Bank of England, confessed to the existence of such an effect on him (Curtis and INPUT, 1997).

Assuming that both stereotypes are correct, we may solve the conflict by saying that, among white collar criminals, there is more than one level of high status and the lower ones are more similar to conventional stereotypes of criminals. They are more visible than the upper level and are less protected, less guarded. Thus, they are easier to criminalize than white collar criminals but harder than petty criminals.

In stereotyping, it is observed that white-collar criminals are predominantly male, generally rich, employed, clever, successful people living in the heart of the cities with no significant biological, psychological, neurological, social disorder.

As for the offenders, Sutherland focused on business managers and executives but also accepted that people from lower classes can commit white collar crimes, but they are exceptions and can be undermined for practical purposes (Sutherland, 1940: 51). Despite the fact that he did not discuss the judicial, artificial personality of corporations in his writings, “in research, he included corporations as offenders as well” (Salinger, 2005: vii).

In his landmark research, Sutherland could not use the crime statistics of government because higher strata of the society were not presented in the statistics. Thus he conducted his own research in 1949 on 70 large US corporations over 40 years and consulted independent commissions’ investigations, courts and regulatory agencies.

Sutherland (1949) found that crimes of business executives and organizational crimes of corporations as legal entities were not only valid but pervasive. To be specific, “every one violated at least one law and had an adverse decision made against it for

false advertising, patent abuse, wartime trade violations, price fixing, fraud, or intended manufacturing and sale of faulty goods. Many of these corporations were recidivists with an average of roughly eight adverse decisions issued for each.” (Hagan, 2010: 201). So, white collar criminals were not only committing crime but were recidivists, incorrigibles.

Although widely appreciated and celebrated by the criminology literature, there exist criticisms made against Sutherland’s studies, particularly on his definition of white collar crime, which include Nelken, (2007), Levi (1988), Slapper and Tombs (1999), Salinger (2005), Clinard (1990).

One of the most important critics of WCC was Tappan, but like others, he was not criticising the importance or relevance of the definition of WCC either. Rather he was criticising the vagueness of the term. This aspect of Tappan’s views is not appreciated enough in the literature. He has been introduced as if he was against the ideas of Sutherland; however he once said:

The important criminals, those who do irreparable damage with impunity, deftly evade the machinery of justice, it is maintained, either by remaining technically within the law, or by exercising their intelligence, financial prowess, or political connections. In seeking definitions of WCC, one finds a rather remarkable diversity, but characteristically the definitions are loose and sometimes doctrinaire. (Tappan, 1960)

The adjectives used by Tappan are not restricted to being *loose* and *doctrinaire*, while criticizing the inadequate definition of crime he uses some vocabulary like ‘not consistent’¹⁶ and states that the interpreters of Sutherland are in confusion (Tappan, 1960). His criticism may be misunderstood and, being aware of this possibility, he himself stated that: “since there has been some misconstruction of [my] view in literature on the subject, that [I] believe white collar crime, properly and precisely defined, to be not only a legitimate but an important phase of criminological inquiry”

¹⁶ Tappan refers to the following publications for inconsistency: Edwin H. Sutherland “White Collar Criminality”, *American Sociological Review*, vol. 5, pp. 1-12, 1940; “Is White Collar Crime?” *Am. Sociological Review*, vol. 10, pp. 132-139, 1945; “Crime of Corporations” in Cohen, Lindesmith, and Schuessler (ed.s), *The Sutherland Papers*, pp. 78-99, 1956; White Collar Crime, 1949 and Marshall B. Clinard’s, “Criminological Theories of Violation of Wartime Regulations”, *American Sociological Review*, vol. 11, pp. 258-270, 1946; *The Black Market*, 1952; Frank E. Hartung’s, “White-collar offenses in the Wholesale Meat Industry in Detroit”, *American Journal of Sociology*, vol 56, pp. 25-35, 1950 and Walton Hamilton and Irene Till’s, “Antitrust in Action”, *TNEC Monography No: 16*, 1941, reprinted in part in Kenneth Culp Davis, *Cases on Administrative Law*, 1951, pp. 37-48.

(Tappan, 1960: 7).

Tappan (1960) could be right in this criticism but one cannot expect a very recently defined term to have matured in a very short while in a few decades. On the other hand, this kind of criticism could be diverted to almost every term in the literature, because for every argument a counter-argument can be found and therefore criticisms of the precision of definitions are easy to contest and refute.

2.3.2.1 Characteristics of WCC

It should be stated that there are a lot of academic and practical difficulties concerning white collar crime and crime fighting, such as its invisibility in the literature, in law enforcement institutionalization and crime statistics. Since these difficulties are intimately related to similar concepts, in our case corporate and financial crimes, we can deduce that these difficulties are inherent to them.

First one may argue a definitional immaturity of white collar crime because of its multifaceted nature (Benson, 2012). Secondly, tolerance and leniency exist towards white collar crime “among officials of the subtler and more complicated offenses they commit than of ordinary theft or burglary, for example, and there is a greater likelihood of ‘getting away with it’ (Tappan, 1960).

Invisibility and leniency are very big problems that prevent the enforcement of these offences. Again, this is important for this study, because attributes of WCCs are inherent to financial criminals too, as

White collar crime sanctums such as corporate board-rooms are generally impervious to first hand observation; even the Mafia (whatever that group is) seems to abide more by the spirit of the Freedom of Information Act than does the corporate world. Nobody is tapping the telephone at General Motors and making the transcripts available to a prurient public. And neither the FBI nor the CIA is employing undercover agents to infiltrate the Chrysler Corporation or Alcoa to discover what alleged conspiracies are being hatched in violation of the criminal law. (Geis and Meier, 1977: 3)

Thirdly, scarcity of information is another problem with white collar crime. Since these facts about WCC make the information flow scarce, “[t]he information on white-collar crime that becomes available to social scientists from congressional committee investigations or court cases tend to be fragmentary and rather

impressionistic in regard to fine points of criminological theorizing". (Geis and Meier, 1977: 3).

Fourthly, financial crimes are serious crimes. Just to give an impression of the relative importance of white collar crimes, we may compare two major incidents from both sides, white collar and non-white collar:

[T]he cost of the Savings and Loan scandal of the 1980s was estimated at \$500 billion, while the celebrated Great Brinks Robbery netted only \$2 million. The latter is much better known and has received more publicity than the former, even though 250.000 Brinks robberies would be required to equal the cost of bailing out the S and L's. (Hagan 2010, 248)

2.3.3. The Context of White-Collar Financial Crimes

Financial crimes are among the terms that are "uniquely defined as white-collar crimes, like antitrust violations, bid rigging, price fixing, money laundering, insider trading, tax fraud" (Scheb, 1999: 232) and have received increased attention in the last decade (Europol, 2006; Gilinskiy, 2006).

It is hard not to agree with Scheb (1999) on the financial crimes' representation in the white collar crime make-up. Financial crime properly represents WCC as a term denoting capital power abuse by high status people. Additionally, WCCs are best represented by financial crimes in the prior discussions of 'leniency', 'invisibility', 'pervasiveness' and 'seriousness'.

After these clarifications, the aim of this study should be clearer; as this study is referring to *financial crime* it implies '*financial*' crimes and we limit our scope by excluding all the financial crimes that do not fall into the category of *white-collar crime*.

It should be noted that there are many categorization attempts in the literature on white-collar, corporate, financial *etc.* crimes. Some of them are published by Bloch and Geis (1962), Hale *et al.* (2005), Albanese (2003), Newburn (2007), Edelhertz (1970) and Hagan (2010), but we prefer using an original categorization which is, unlike almost all alternatives, not prepared for a clear organization of all possible variations of the term under a manageable number of categories. Rather, this research categorizes them under three different scopes, ranging from micro-scale to macro-

scale. In this way, one can address the distinguishing features and covariance between micro and macro scale concepts, definitions and theories.

Since many crime theories utilize the fundamental research findings of mainly psychology, sociology, politics, economics and business, this study argues that the categorization of the crimes studied in this research should be distinguished by the parameters which differentiate deviance under FWCC (financial white collar crime). This parameter is the number of interacting and conscious individuals. The nature of one, single individual's deviance is considerably different than the group of interacting, conscious, organized individuals who commit the same crime and these two are different from the big crowds who have a higher consciousness such as being a member of the society, race, religion etc.

Within this framework, we see FWCC committed mainly by only three categories of offenders: *individuals*, *groups* (or organized groups) and *crowds* (or public, or organized crowds such as states, countries *etc.*). One by one, we consider these agents as both *perpetrators* and *victims* of FWCC and exemplify them.

Because the 'new perspective' of financial crimes "is obtained by viewing the corporation as an entity participating in financial markets, *i.e.*, as an active, strategic trader manipulating the market to its shareholders' advantage" but "the corporation is also viewed as taking certain actions to prevent its shares from being manipulated by others" (Cherian *et al.* January 01, 1993: 200).

When we delve into the details of our comparative study, it will be appreciated that analyzing the offenders of FWCC in such a way is not unnecessary because of the aim of accommodating many extreme cases.

We are aware that group behaviour and thus group deviance is different than individual behaviour and individual deviance. Similarly, societal behaviour and crowd deviance is very much related to culture, anthropology, belief system, geography and many other parameters. All the same, we tried to give some extra explanations for the varying behaviours from the standard behaviour we formulated for the individual.

Below, all possible agents of financial crimes are grouped in three main clusters of individuals, organizations and public for each one of the crimes intended to be studied

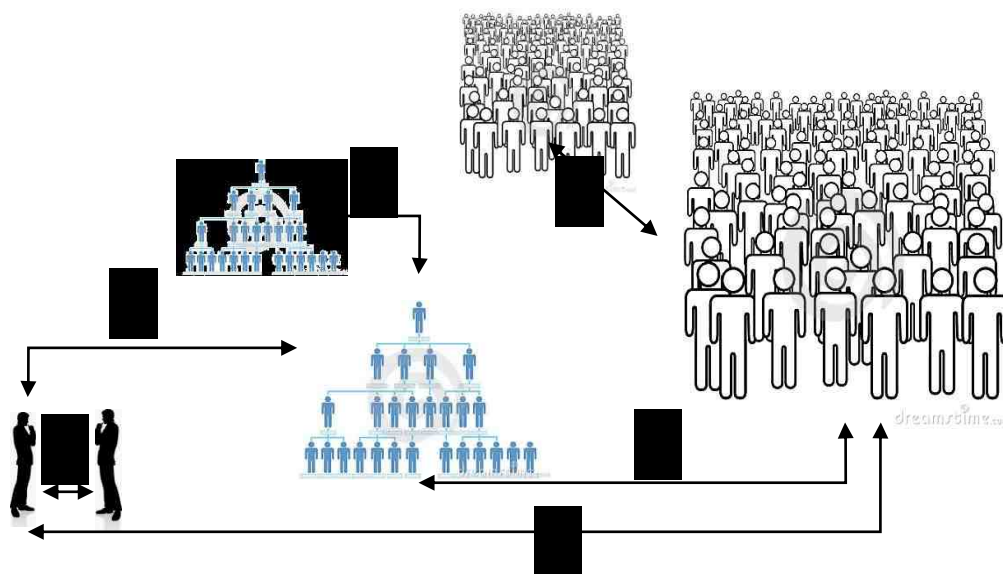
in this research.

Figures in this part of the text depict the FWCC along with possible offenders and victims of different volumes and kinds. The same depiction is presented for all the financial crime types we include in our study, namely, fraud, speculation, manipulation, tax evasion and competition crimes. Beneath them are the examples for the depictions.

2.3.3.1. Fraud

As Figure 2.6 shows, fraud as a FWCC occurs in various levels from the most micro-level to the most macro-levels. One can give the ‘*individual*’ as a would be FWC Criminal at the most micro-level, different size of organizations at the average-level and societies, states at the most macro-level would be offenders.

Figure 2.6: Possible Offenders and Victims of Fraud



Since all of these would-be-offenders have significantly different characteristics specific to their own level, distinguishing them and putting them into different categories are critically important. In this way, one can isolate a specific level (in this research *the individual* at micro level) in order to conduct ‘*scientific*¹⁷’ research on it before researching other parts and their relations.

¹⁷ As is well known in scientific research, it is crucial to control the effects of the unobserved phenomena on the observed one. In this research the effects of the organization and the society on the

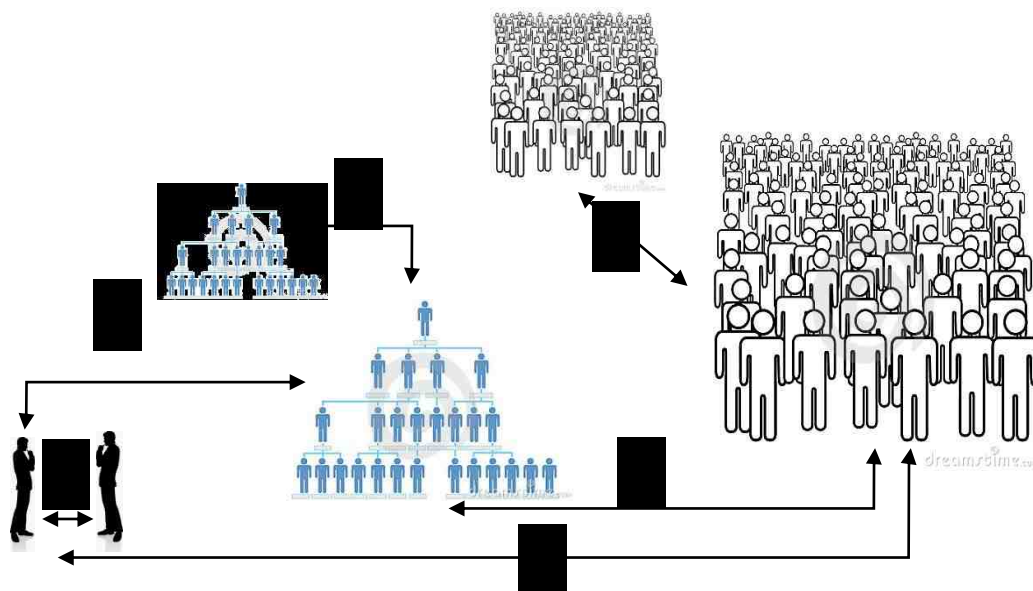
Let us now exemplify different kinds of ‘fraud’ as FWCC that occur at and in between different levels of analysis or scopes. For instance Ponzi schemes may occur at individual level, the most micro-level, while one person is financially deceiving another for an illegal financial gain.

- (i) Ponzi Schemes
- (ii) Nick Leeson of Barings Bank
- (iii) John Perkins’ (2004) Accusations
- (iv) Enron
- (v) Arthur Andersen
- (vi) Alleged US dollar forging and use by Iran (Independent, 03 July 1992)

2.3.3.2. Speculation

For instance high-net-worth individuals may speculate against each other (1) at individual level or corporations at organization level (2) for financial gains that are considered to be something bad in Western societies and incriminating in some others.

Figure 2.7: Possible Offenders and Victims of Speculation



- (i) High-net-worth individuals speculate against each other;

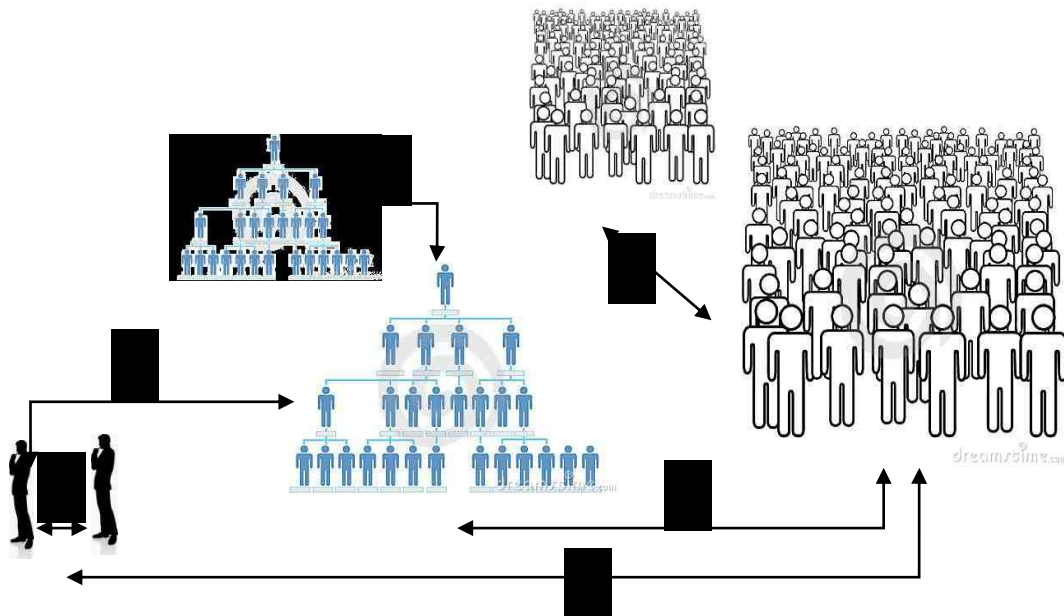
individual are observed and analyzed separately at different levels and their relations are formed as a grounded theory.

- (ii) High-net-worth individuals speculate against corporations;
- (iii) This is a common practice of individuals such as day-traders who invest in the derivatives based on the whole index, sometimes for minutes only;
- (iv) This is the daily practice of almost all investment funds such as shorting;
- (v) Corporations which have short and very short term government bonds in their portfolios or the ones which use Internet search engine based, automatic, instantaneous investments;
- (vi) *i.e.* governments speculating about other governments' bonds.

2.3.3.3. Manipulation

For instance high-net-worth individuals may manipulate against each other (1) at individual level or corporations at organization level (2) for financial gains that are considered to be unlawful in almost all societies.

Figure 2.8: Possible Offenders and Victims of Manipulation



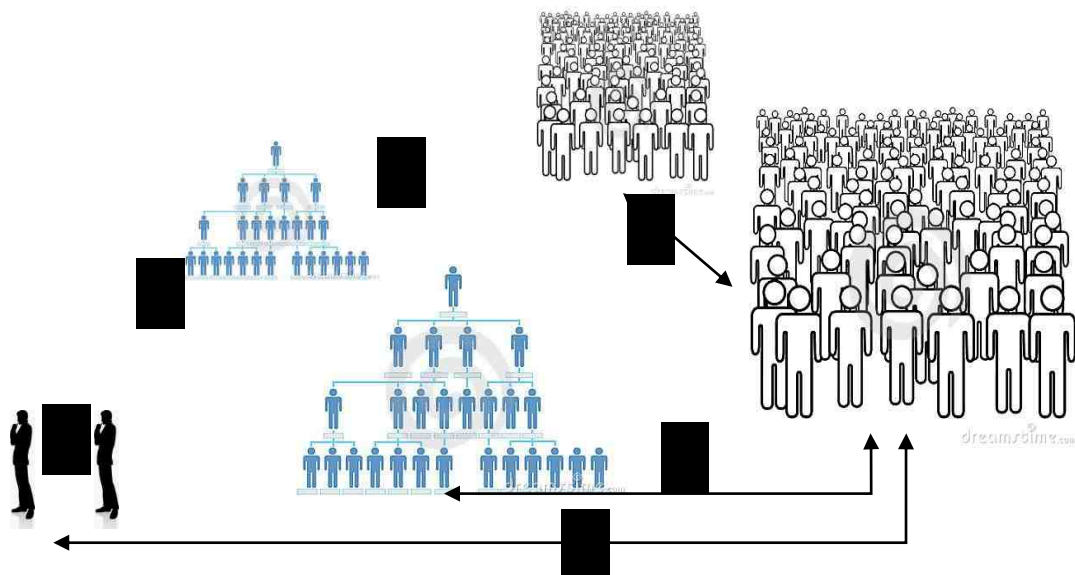
- (i) High-net-worth individuals can manipulate some of the assets against each other;

- (ii) High-net-worth individuals can manipulate against the corporations i.e. they want to buy;
- (iii) *i.e.* Nick Leeson against Nikkei Index;
- (iv) This is a normal practice of manipulation in the stock market against certain corporations;
- (v) Some corporations, banks can manipulate considerably weaker currencies;
- (vi) Governments or big banks can manipulate the bonds of some municipalities.

2.3.3.4. Tax Evasion

It is not possible for individuals to evade tax from each other (1) at the most-micro level or from corporations at the average level (2). Likewise, corporations cannot evade tax from corporations (4) but they can evade tax from governments (5). Let us now exemplify possible offenders and victims of tax evasion as a FWCC.

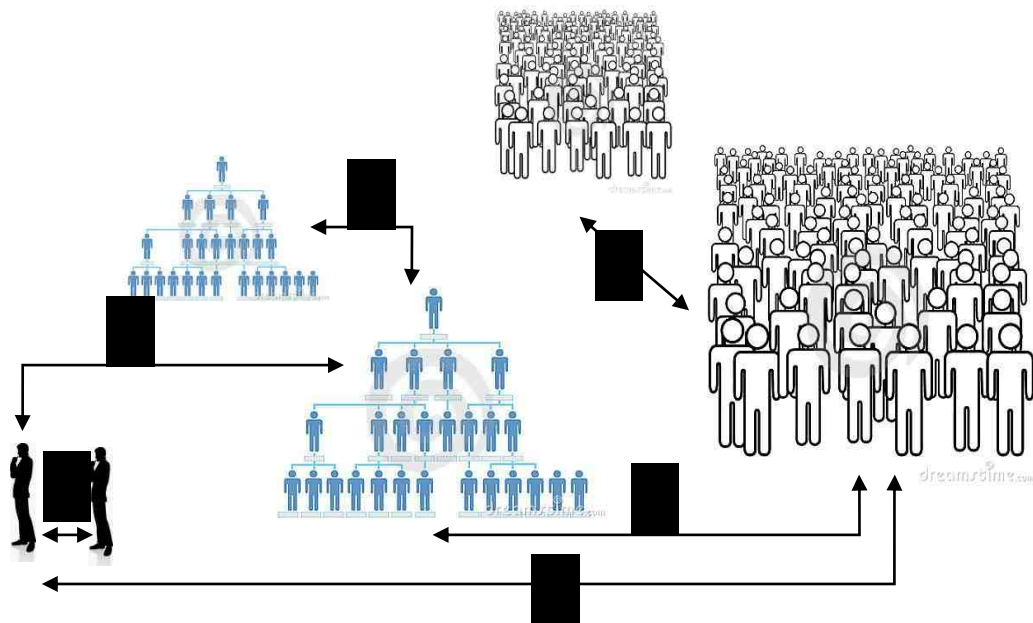
Figure 2.9: Possible Offenders and Victims of Tax Evasion



- (i) A: The most common way of tax evasion by individuals against the public;
 B: Printing more than enough money and creating inflation is unfair taxing of individuals and criminogenic;
- (ii) A: The most common way of tax evasion by corporations against the public
 B: Printing more than enough money and creating inflation is unfair taxing of corporations and criminogenic;
- (iii) By means of tax havens, governments usually allow other governments' citizens to deposit funds that are saved from the tax money.

2.3.3.5. Competition Crimes

Figure 2.10: Possible Offenders and Victims of Competition Crimes



Antitrust violations can occur in all the micro and macro levels, some of which are exemplified below:

- (i) Individuals may singlehandedly monopolize some smaller, local markets against other individuals;
- (ii) Relatively richer individuals may monopolize some small markets against corporations;

- (iii) Some high-net-worth-individuals may monopolize the whole national market of some specific industries in developing countries;
- (iv) This is the most common form of competition crime. Corporations may for instance discriminate in prices or wage price wars by dumping the prices of the goods and services they sell, in order to prevent market entry of newcomers;
- (v) Indeed in all actualized dense markets are committed crimes against the public;
- (vi) For instance some countries subsidize some firms of great reputation and income in order to protect them against rival corporations in other countries. *e.g.*. Boeing and Airbus.

2.4. CONCLUSION

In this chapter we: defined crime, after listing all the possible approaches to defining crime, and put the term ‘financial crime’ into its greater context, under white crime criminality, and eliminated the terminological misconceptions and misunderstandings.

As for the definitions of crime, in general (legally) financial systems are not in consensus; however they are almost in complete consensus from the point of view of Sutherland’s socio-legal definition of crime, about the definitions of financial crimes we study. In all three financial systems, and the representative countries of these systems, speculation, manipulation, monopoly and other competition crimes, tax evasion and fraud are defined as crimes. Therefore, conducting a comparative scholarly study on financial crimes between market economies, socialist economies and Islamic economies is feasible, do-able and necessary.

This chapter aimed to establish a better consensus on the definitions that are used in this study. Assuming that this aim has been fulfilled, we may now move on to clarify the position and perspective of this research in criminological theories

Chapter 3

THEORIES IN CRIMINOLOGY AND FINANCIAL CRIMES IN ECONOMIC REGIMES: A SURVEY

3.1. INTRODUCTION

After identifying the conceptual definitions in Chapter 2, this chapter aims to provide a review of the criminological theories in three categories in accordance with their usefulness to explain financial white collar crime. In this attempt, these theoretical models are expanded to include alternative ontological and epistemological understandings of criminology by referring to socialism and Islamic views. To have less confusion and a clearer comparison of the Eurocentric theories and the alternative paradigms, the conceptual definitions provided in the previous chapter are expected to be useful.

It should be noted at the beginning that criminology is a very rich discipline in terms of its theoretical foundations with its history of being a 200-years-old (sub)discipline (Hale *et al.*, 2005: 86). There are numerous different theories that are applicable to various kinds of crimes that are committed in various environments by various culprits. It should be noted that usually, criminology and criminal justice text books begin their academic journeys with the classical school of criminological thought. However, chronologically religious ideology and criminological thought, although criticized, precedes all other criminological theories. Through a critical reflection, needless to say that religious dogma is not science and its principles are not scientific theories: they are claimed to be the ultimate rules of the societies in the first place. However, in the era of postmodernism, we cannot also claim that all of the principles they laid down were false solely because of their origin. A sensible and sensitive approach would be to say that they 'may' have sound principles.

After a quick reminder of the intermediary role religion played between the crime/criminal and penology/punishment, we may proceed to providing reasons as to why criminological theories, other than rational choice theory, are not going to be utilised in this study focused on financial crime.

3.2. CRIMINOLOGICAL THEORIES RELATING TO FINANCIAL CRIME

There are various criminological theories to explain the crime as a ‘phenomenon’ and some of them are more useful than others to explain some specific kinds of crime such as financial crime. In this chapter, all the crime theories are categorized according to their relevance to and explanatory power about financial crimes. The criminological theories are investigated under three main categories

- (i) theories that are distant, not relevant to financial crimes; uncultivable theories;
- (ii) theories that are cultivable and somewhat relevant; and
- (iii) theories that are very relevant, probably¹⁸ suitable to explain the deviant behaviours of financial criminals.

Now, let us begin with the first category of theories: theories that are distant from financial crimes.

3.2.1. Criminological Theories Being Distant from Financial Crimes

3.2.1.1. Positivist school

The Positivist school may come under many names and it has many sub-branches¹⁹. Some of the distinctive ones are: ‘early positivism’, ‘genetic transmission theory’, ‘bio-social perspective’, ‘socio-biological theory’, ‘social ecology studies’, and ‘constitutional theories’. According to this cluster of theories, people are born as criminals and crime is considered as a deformity and a sickness. To solve the crime problem, thus, positivist school theoreticians looked at defective body types, unusual skull dimensions, weird bones, lower IQs, nervous system defects and other similar biological faults and dysfunctions; yet it is almost impossible to come up with such

¹⁸‘probably’ because the theories develop through the course of time and the researcher may realise an opportunity of developing it while applying it.

¹⁹These categories and types of positivist school and involving academics are derived from Schmallerger (2009), Siegel (1995) and Hale et al. (2005).

people among highly educated, clever, presentable bankers, insurance company managers, brokers, dealers *etc.* The latter type of individuals do not have biological problems and they are not handicapped or neurologically disabled, nor are they suffering from lower IQs *etc.* However, as Sutherland (1956: 88) asserted:

We have no reason to assume that General Motors has an inferiority complex or Alcoa Aluminum Company a frustration-aggression complex or U.S. Steel an Oedipus complex or Armour Company a deathwish, or that Dupont wants to return to the womb.

Many criminologists have “doubted” (Williams, 1997: 140) genetic explanations of crime because little is known about their interactions (Bryson, 2004), and research on the ‘epigenome’ which turns genes on and off depending on the various environmental factors shows that our physical being is partially built by our environment as well. Besides, biological theory is “an admission of hopelessness” (Williams, 1997: 140).

3.2.1.2. Social conflict theories

Social conflict theories basically claim that crime takes place because the society is based on ‘class conflict’. If it were only based on a classless society or on a society of planned and distributed uniform power, conflict would be erased and we would not experience crime. Accordingly, crimes are considered as “acts perceived by those in power as direct or indirect threats to their interests and that are defined as criminal through a political process” (Sheley, 1991: 40). Nevertheless all such societies experienced a significant number of crimes (see for instance, Buchholz *et al.*, 1974).

Conflict theories “view crime as a rational choice for the oppressed” (Williams, 1997: 455; Qinney, 1974) but they fail to explain why the higher strata of the society, despite all the power they have, would commit crimes, mostly white collar crimes. Why would they infringe the same laws they created, or to put it in other words, why would they enact the laws that way in the first place, if they would violate them? Then, the crime is not only a rational choice of the oppressed but also a rational ‘choice of the oppressor’. Nevertheless, conflict theories do not provide this balanced ground of discussion, as they favour one, the oppressed. Thus, social conflict theories can be considered as inappropriate to properly explain financial white collar crime (FWCC) and crime in general for that matter; because white collar crime (WCC) is

undoubtedly an important part of the general concept of 'crime', leaving it unexplained is partially leaving the crime itself unexplained.

There is no doubt, however, that they have contributed to the criminology literature greatly because they provided a unique perspective and, in a way, opened the doors for the whole concept of white-collar-criminality and released some of the unmerited blame from the shoulders of the street criminals.

It should be noted that various specific ideas have created many sub-branches of conflict theory. Some of them are: 'Marxist criminology', 'peacemaking criminology', 'radical criminology', 'feminist criminology', 'left-realist criminology (left idealism)'. However, these are not considered for discussion in this chapter.

3.2.2. Criminological Theories that are Useful to Explain Financial Crime

3.1.2.1. Psychological/psychiatric theories

Discussion of the psychological origins of crime can be traced back to the beginning of the 18th century (Oleson, 2007). There are a number of psychological/psychiatric theories such as: 'Modelling Theory', 'Forensic Psychiatry', 'Attachment Theory', 'Behaviour Theory', 'Frustration-aggression Theory', and 'Self-control Theory' among others. However, we need to be aware that most of the "psychological theories associate crime with abstractions like mental illness, intelligence, or personality" (Oleson, 2007).

We can categorize psychological theories into two main categories: (i) cognitive and (ii) behavioural theories. It should be noted that both 'cognition' and 'behaviour' are concepts relevant to financial crimes, and their explanatory tendencies at the time of the criminal's decision-making is undeniable, because financial crimes are all about deviant 'behaviour'.

Similar to Pinel, Weiner (1992), Rush (1812) and Maudsley (1867), many theoreticians argue that criminality is 'linked to the forms of insanity' or 'equivalent' to it, and indeed a form of escape from being mad (Oleson, 2007). Even this approach, that crime is a rescue from madness, sees crime as a rational choice. Therefore, it does not deserve to be the foundational theory of our study because there is a standalone rational choice theory in the first place.

Before psychological theories, deterrence was the main argument of criminal justice policies, but these policies, in time, shifted to the rehabilitation of offenders. However rehabilitation programs failed to prevent or lessen future criminal activities (Martinson, 1974). Murray and Cox (1979) also reported that rehabilitation programs were inferior to deterrence based ones. This, indeed, is one of the reasons why we will not prefer psychological theories in debating financial crimes. Because there are very few theories that governments consider building public policies upon and psychological theories were given this scarce chance. They served as government policies especially after the second half of the 20th century but they failed. Many governments abandoned using rehabilitative means of punishment, incarceration, and moved to more punitive means based on rational choice.

Nevertheless, it should be noted that psychological theories are important for our study in an indirect way because they research whether or not the offenders possess the requisite criminal intent²⁰ while committing the crime²¹.

3.2.2.2. Social structure approaches

Social structure theoreticians usually take the ‘consensus’, rather than ‘conflict’ side of the dichotomy of social construct. They do not think that the society is in conflict in general but the social structure may not be constructed properly. They focus on the structure and functions of the society, the way it is socially, physically, culturally constructed, and the way the functions and internal groups of the society interact.

There are four main branches of this approach, namely, ‘Anomie Theory’, ‘Social Disorganization Theory (Chicago School)’, ‘Culture Conflict’ and ‘Strain Theory’.

It should be noted that social theories are strong in criminology literature. Although it is one of them, social structure theory’s viewpoint on crime is rather different from social conflict and social process theories, because they do not consider crime as something harmful, something ‘evil’. On the contrary, they sometimes see it as a normal, or even ‘useful’, ‘needed’ phenomenon (Hale *et al.*, 2005: 68) and sometimes, as an inevitable result of urbanization and modernity.

In theorising, it is argued that people are social creatures and there is no doubt that

²⁰ Better known as ‘*mens rea*’

²¹ ‘*actus reus*’

their behaviours are linked to and affected by others' behaviours. Moreover, if we are talking about social functions and structures and thus, social institutions like family, school, workplaces *etc.*, their effects on individuals are undeniable, making them good places to research crime.

However, the social structural view treats crime as a social 'function' and criminals as a 'separate' entity in the society. This is most likely because the theoreticians of social schools refer to street criminals when they talk about crime. Financial white collar criminals' behaviours though are not explicitly considered to be socially anomic by those theoreticians. Maybe because they are not observed to be under more strain than street criminals, their neighbourhoods are also not disturbed much, as suggested by Chicago School, but they still commit crime.

The crime definitions of social structure theories rarely mention white collar crime, if they mention it at all; and this is indeed why the literature needs better theoretical explanations, explanations that do not fail to include an integral part of crime.

Strain Theory specifically, for instance, builds all its arguments on the 'strain' people feel when they claim too much and get less within the proper mechanisms of the society. This argument and similar arguments of Social Disorganization Theory are valuable contributions to criminology, but they do not offer clear explanations about, for instance, corporate crimes like Enron, Arthur Andersen *etc.* It is hard to believe that people involved in Enron and similar corporate crimes have been affected by their socially disorganized neighbours' boys as it is claimed by Shaw and McKay (1942: 166) but again, it has some relevance because criminal corporate culture can be infectious inside and outside the economic systems.

Social structure theories generally talk about the flux of social groups, social functions *etc.* at the time of change and crime, but white collar criminals seems to be the ones who initiate, manage, and profit from the change. Why would they commit crimes to change it? They are supposed to be happy about the way the society operates and the way it is constructed.

3.2.2.3. *Social process theories*

Social process theories do not necessarily claim that the society is in consensus, in conflict or that the fundamental structure of the society is defective but they still emphasise societal means of crime. ‘Conformity’ to law and order in this viewpoint is ahead of the ‘deviance’, unlike positivist, psychological and social structural theories.

For instance, control theory claims that “every individual is born free to break the law. It is criminality which is natural and conformity needs explanation” (Williams, 1997: 370; Hale *et. all*, 2005: 82). In a similar vein, according to the ‘interactionist school of process theories’, deviance does not cause social control but ‘social control causes deviance’ (Lemert (1951). It is hence argued that people commit crime as rebels against the control, or when their freedom is breached.

Some of the main branches of social process theories are ‘Social Learning Theory’, ‘Social Bond Theory’, ‘Social Control Theory’, ‘Dramaturgy’, ‘Labelling Theory’. According to this theory group, some major factors of conformity are attachment, commitment, involvement, belief and self-control. Theoreticians of this school focus their attention onto the social development of human-beings and they analyze the effects of certain social institutions like family, school, peer groups *etc.* on the individuals in a dynamic, long-term, developmental manner. We include Labelling Theory and the Social Interactionist School under this title, because labelling itself is a dynamic, social process and it is not as politically overwhelming a cause of conflict as class conflict suggests. Otherwise it would be better to enumerate it under the conflict school. However, opposing ideas exist (*i.e.* Jones, 2006: 232).

Among the theories in this group, the impact of social learning and social bond theories are significant. The social learning school argues that criminality is learned by long term interactions and communications with criminal social environments. However, social learning and social bond theories cannot explain the initial states of different types of crimes. By definition, however, first formations of crimes cannot be learned from somebody else.

Control theory, on the other hand, being another type of structural theory, is said to be unstable (Hale *et al.*, 2005: 84), because of the tautology of the “propensity towards crime and low self-control”. In other words, control theoreticians claim that

criminality is normal and conformity should be questioned but their study of low self-control still seems to be referring to a defect in human beings which is a deviance from, say, psychological averages and norms and very similar to the study of crime, of deviance. This, however, refers to a contradiction. If crime were the norm why does the lack of the norm represent crime? Why does it stand as a deviance from the averages if the society has not turned upside down? Or if it did what does 'deviance' mean in today's society?

As for Labelling Theory, Box (1981) shows that "white collar offenders are often labelled" and gives the following example from Geis and Meier (1977: 3):

A General Electric official, for instance, complained that he was exposed to "relentless publicity" and that the newspapers "used some terms which I don't think are necessary – they don't use the term 'price fixing'. It's always 'price rigging' or trying to make it as sensational as possible."²²

But Labelling Theory suggests that the 'powerful' decide which labels will be attached to whom and it is always working class people who receive bad labels. White collar criminals seem to be an exception to this assertion though because a labeller would not label himself/herself with bad labels. This constitutes a contradiction though. As the above example from Geis and Meier (1977:3) shows, white-collar criminals are labelled by the society as well. Thus, white-collar bad labels exist. It should be noted that from the point of view of label theory, there are supposed to be no or a minimum number of labels attached to the white collar criminals including financial white collar criminals. This is why white collar crime as a phenomenon is unexplainable by label theory because Sutherland (1956) has proven that their number is at least as many as street criminals.

Overall, social process theories are valuable, as they provide a unique perspective and help us to realize that the social environment around us is a very important parameter of deviance regardless of whether the society is in conflict or not.

²² Gilbert Geis' (1967) "The Heavy Electrical Equipment Antitrust Cases of 1961"

3.2.3. Criminological Theories Helping to Explain Financial Crime

3.2.3.1. Classical school²³ as a foundation of rational choice theory

The Classical School emerged in the late 18th century, when “the law was the will of the powerful, applied to the lower members of the society. The administration of justice was based on inflicting pain, humiliation, and disgrace to those accused of offenses” (Lanier and Henry, 1998: 65).

According to the Classical School, crime is a result of rational choice and since it is a rational choice, it can be reduced in the short-run. If for instance it was a result of a discretionary measure such as human biology, psychology, sociology *etc.* it would be difficult to detect and fix people with defects in their genes, minds, social interactions, but if it is a rational choice, it is indeed good news for the public because it would not be so difficult to ir-rationalise such actions by for instance punishing them more severely. In many ways, the Classical School and its sister theories are the name of ‘hope’ in criminology unlike Labelling Theory, Anomy Theory, the Marxist School and other radical schools (*i.e.* the feminist and anarchist schools).

Many criminological theories now share the same basic ideas that the Classical School established. Einstadter and Henry (2006), for instance, enumerate the following theories which were developed, adapted, clarified or even re-created from the Classical School: Neoclassicism, Humanitarian Rationalism, Administrative Criminology, Justice model, Just Deserts Model, Due Process Model, Economic Theory of Crime, Wealth Maximization Theory, Time Allocation Theory, Rational Choice Theory, Situational Choice Theory, Routine Activities Theory.

Beccaria (1963: 8), being the foremost representative of the classical school, wrote in 1764 that the laws must be designed so that “the greatest happiness [is] shared by the greatest number” and he advocated equal justice for all by demanding from the justice system no tolerance for the powerful, rich and affluent and appealing rights to higher courts of law. Packer (1968) claims that his ideas brought the ‘presumption of innocence’ to the justice system too. “To maximize the possibility of justice and deterrence, Beccaria believed that punishment should fit the crime in being

²³ Einstadter and Henry (2006) make convincing arguments that the classical school was not a conservative approach but was an approach against the classical, conservative, ‘crime control’ model of the pre-Enlightenment.

proportionate to the harm caused” (Lanier and Henry, 1998: 69). In other words, he believed that the impacts of crimes should determine the ‘severity’ of punishment, as he argued that specific deterrence should be preferred to general deterrence, meaning, punishment may not be a discouragement for the whole society in general but may prevent individuals from committing crime by calculating its costs.

Most of the modern ideas of the neo-classical school were presented by the founding fathers of the classical school. For instance Beccaria (1963) claimed that the punishments should be ‘certain’ if they are to be effective on calculating human-beings, and also stated that “The certainty of punishment, even if moderate, will always make a stronger **impression** than the fear of another which is more terrible but combined with the hope of impunity” (Beccaria, 1963: 58). Lanier and Henry (1998: 69) elaborate on this important concept by giving an example from 18th century London of pickpockets who stole in the crowd at the public execution of pickpockets.

‘Celerity’ and ‘severity’ were other requirements for effective punishment. Beccaria rightly touched on these by saying: “the more promptly and the more closely punishment follows upon the commission of a crime, the more just and useful will it be” (Beccaria, 1963: 55). In the literature, these three qualities, certainty, severity and celerity, are widely seen as primary qualities of rationality in committing crime.

Bentham (1963) theorized that people seek pleasure and happiness and try to avoid pain. As reported by Hale *et al.* (2005: 63), Bentham followed Beccaria and said that “prevention was the only justifiable purpose of punishment” and he recommended that “penalties be fixed so as to impose an amount of pain in excess of pleasure that might be derived from the criminal act”, because “[n]ature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we were ought to do, as well as to determine what we shall do” (Bentham, 1982: 1).

The impact of the ideas of Beccaria and Bentham was tremendous; almost singlehandedly, they caused a big shift from an era of arbitrary, unequal punishment to the new, rational, equity based deterrence era. Beccaria’s book had been translated into many languages and sold many thousands of copies, but was eventually banned. In the course of time, their principles have not been totally abandoned but interest in

them was lost for a while until the early rational choice theory re-emerged in the 1960s.

Realizing the continuum of it, Lanier and Henry (1998) rightly analyze the development of rational choice theory in four steps²⁴: (i) pre-classical, (ii) classical, (iii) neo-classical and (iv) post-classical eras. Recent rationality based theories, such as ‘routine activities theory’ and ‘situational crime prevention theory’ are post-classical era theories and they provide many technical details of crime and its environment.

3.2.3.2. Rational choice theory (or post-classical school) and its development

Pure Science Era of Neo-Classical School

After Beccaria, Bentham and other Enlightenment era intellectuals (like John Howard and Samuel Romilly), “with the help of the sweeping impact of the ‘science’ movement”, “the focus of criminal justice shifted from the criminal act and how equal individuals chose it towards what kind of individuals would choose such acts and why other kinds would not” (Lanier and Henry, 1998). Consequently, researchers tried to find out who were those criminals. Were they choosing to commit crime because their brains were defective or nervous systems malfunctioning or genes simply bad *etc.*?

This ‘pure science chasing would-be-criminals’ movement continued for decades and failed. In the 1970s, post-classicists, seeing this injustice, proclaimed a return to classical norms of equal punishment and equality before the law “protesting that discretion based on the dubious claims of science and social science had gone too far” (Lanier and Henry, 1998: 71).

Back to Rationality

Rationality indeed is one of the obvious factors in crime-causality. Many studies show that burglars commit crime after a rational decisions process they go through (Bennett and Wright, 1984; Bennett, 1986; Rengert and Wasilchick, 1985; Nee and Taylor, 1988). For instance, burglars prefer two-exit-residences with obscuring vegetation at

²⁴ The majority of the literature categorizes this school of thought under two main titles: (i) Classical School and (ii) Rational Choice Theory.

the rear and avoid dogs and alarms (Nee and Taylor, 1988; Felson *et al.*, 1990). Even violent crimes, such as rape (Felson and Krohn, 1997), murder and serial killing (Hickey, 1991) suggest rationality. After these varieties of crime, Siegel (1995: 114) argues that it is not surprising that white collar criminals “exhibit evidence of rationality”.

As a matter of fact, theorists of rational choice are in consensus that the ‘rationality’ under our scrutiny here is not a ‘pure rationality’ (Clarke and Cornish, 1983, 1985; Cohen and Felson, 1979; Cohen and Machalek, 1988) and this idea of ‘limited’ or ‘bounded’ rational decision making receives “considerable empirical support” (Gibbons, 1994: 124).

According to rational choice theorists (Lanier & Henry, 1998: 77, emphasis added), “offenders ... use free will and weight the perceived costs against the potential benefits. This weighing is called *choice structuring*. Offenders choose to engage in criminal acts if their *rough calculation* suggests the action might result in net gain”.

Cornish and Clarke (1986) refer to ‘limited rationality’ or ‘partial rationality’, ‘soft rationality’ and not about ‘pure rationality’. As a matter of fact, Akers (2000: 58) argues that the assumption of pure rationality has no empirical validity, as Akers (2000: 12) states that “the primary criterion for judging a theory is its verification or refutation by empirical research”.

Table 3.1 provides a summary of the empirical assessment of rational choice theory by Lanier and Henry (1998: 80).

3.2.3.2.1. Justice theory

After the positivist and post positivist school eras, what experiments, variables, measurements, laboratories brought about was new individual and social differences based on, this time, psychological and neural defects and social maladjustments along with biological differences, and if people were different in terms of their abilities to conform with law and order, they should be treated differently and ‘punished’ differently, reasoned laboratory scholars, and governmental policies changed to follow them.

Table 3.1: Empirical Assessment of Rational Choice Theory

Author & Year	Sample size	Sample Type ¹	Main Findings	Support (+) Negate (-) Theory
Paternoster & Simpson (1996)	96	Grad business student & corporate execs.	High moral inhibitions to corporate crime negate cost-benefit analysis. Weak inhibitions deterred by formal and informal sanctions	+ -
Nagin & Paternoster, (1993)	699	CS	Criminal propensity to commit crime, and target attractiveness, low cost/ risk and perceived benefit related to decision to offend	+ -
Bachman, Paternoster & Ward, (1992)	94	MCS	Decisions to commit sexual assault on female affected by fear of formal sanctions only where there was low moral inhibition to offense.	+ -
Shover & Honaker, 1992	60	Persistent Property Offenders	Criminal decision making sustained by lifestyle characteristics with maintenance goals that create a “bounded rationality” that discounts risks.	--+
Corbett & Simon, (1992)	893	Drivers	Supports limited rational choice for unlawful driving	+ -
Grasmick, Bursik & Cochran, (1991)	304	Residents	Self-imposed shame has greater deterrence effect on tax evasion decisions than social shaming	--+
Schneider & Ervin, (1990)	867	Juvenile offenders	Sense of citizenship deters decisions to commit crime, perceptions of certainty and severity of punishment do not	-
Paternoster, (1989)	1,250	HSLON	Some offence decisions affected by certainty (but not severity) of punishment but far less than effects of social costs and other factors leading to limited rational choice model.	--+
Philips & Votey, (1987)	12,686	Y (14-24) LON	Those who experiment with and then desist from crime learn from police contact to desist offending only when provided with alternative legitimate income.	--+
Piliavin <i>et al.</i> , (1986)	3,300	LON	Supports reward component of rational choice model but not cost or deterrent component.	--+

Note: 1- F = Female, M = Male, B = African American, W = White, Y = Yellow, HS = High School Student, CS = College Student, UCR = Uniform Crime Report Data, NCS = National Crime Survey Data, NYS = National Youth Survey Data, BCS = British Crime Survey Data, LON = Longitudinal Survey Data.

Source: Lanier and Henry (1998: 80; emphasis added)

Policies were now favouring treatment instead of deterrence and were discretionary because the justice system was punishing two convicted individuals differently, despite the fact that they committed the same crime. This was done on scientific grounds. Some would be treated with “wide disparities in charging and sentencing” according to Heumann and Loftin (1979: 393), because of their defective genes, social or psychological requirements *etc.* “For example, one juvenile offender might get sent to a detention centre, another to probation and a third to boot camp, all for the same offense, because some social worker’s report claimed that each individual offender had different needs” (Lanier and Henry, 1998: 72).

The differences in punishment reached a point where rational decision making was not even possible for the would-be criminals because criminals decided about their punishments ‘after’ they commit crime. After becoming more acquainted with the individuals, experts would decide about the ‘severity’ of their punishment so that the punishment would be adjusted to the rehabilitation needs of the individuals. However, as Bottomley (1979:127) put it, rehabilitative justice “culminated in the entire notion of the indeterminate sentence coming under attack for its therapeutic pretensions in a situation where not only was hard evidence of therapeutic effectiveness lacking ... but where indeterminacy created unacceptable tensions“.

Critics of these inequalities before the law advocated, developed and promoted a ‘just’ theory: ‘justice theory’ some criminologists call it. Justice theoreticians saw ‘punishment’ as “a desirable value and goal in its own right” (Bottomley, 1979: 139).

Fogel (1998) announced his ‘just deserts’ concept in 1975, which was proposing a return to classical ideas like ‘determinate sentences’ with only small variation to fit the circumstances of crime. According to Lanier and Henry (1998: 74), the justice model of Fogel contains four elements:

- “(1) limited discretion at all procedural stages of the criminal justice system;
- (2) greater openness and accountability; (3) punishment justified by the last

crime or the series of crimes (neither deterrence goals nor offender characteristics justify punishment); and (4) punishment commensurate with the seriousness of the crime, based on actual harm done and the offender's culpability".

Statistics show that determinate sentencing policy reduced sentencing disparity (Blumstein *et al.*, 1983; Tonry, 1988) and increased prison populations (Mays, 1989), but could not have been implemented completely. Realising this fact, 'plea bargain' was recommended to be eliminated from the justice system by the National Advisory Commission in the US in 1971, but none of the states except one responded positively. Lanier and Miller (1995) found that more than 90% of criminal defendants receive less than the original sentences by pleading guilty in the US and this figure goes even higher with early parole release and reduced sentences, argue justice theoreticians.

In sum, circularly, departure from the classical thought brought about a similar environment to that in which the rational choice theory emerged and emerged for not mere ideological reasons. The 'resurrection', as some call it, of classical school ideas appeared because, with few exceptions, all rehabilitation attempts have failed. Rehabilitative programs could not lower crime rates because, as Martinson (1974: 25) put it, they "had no effect on recidivism". After the failure of the 'rehabilitation' era, 'deterrence' reappeared, as explored below.

3.1.3.2.2. Deterrence theory

Behind the idea of deterrence is the assumption that people fear apprehension and punishment and will try to avoid it. At the heart of this theory are 'certainty', 'severity' 'celerity', 'proportionality', 'general deterrence' and 'specific deterrence' (Zirring and Hawkins, 1973; Gibbs, 1968; Wright, 1993).

Deterrence theory is like an auxiliary theory of Classical School and Rational Choice Theory because Rational Choice Theory holds that the number of crimes decreases as the available punishment increases and if the deterrence is severe, certain and swift enough, and that even the general idea of punishment, the very existence of it, is a discouragement to the public in general, regardless of their criminal backgrounds and motivation.

The criminal justice world, indeed, seems to be relying upon deterrence, regardless of

the discrepancies in the political or economic systems they operate in. Large studies are conducted to test deterrence theories such as the Kansas City preventive patrol experiment in 1974 (Kelling *et al.*, 2003).

The role of deterrence in financial crimes is almost undeniable. The famous market manipulation and fraud case of Barings is a good example. The managers of the bank explain that Leeson, the culprit, was not deterred at all, there was no real audit in the bank. Peter Norris, chief executive of Barings Investment Bank, stated that “There was a culture which said that businesses of that type operated far better in an informal environment than a formal environment. I think that was a significant error of judgement... *Leeson was not completely wrong.*” (Curtis, 1998, emphasis added). He was not deterred at all.

Deterrence, or keeping people away from crime by enforcement and punishment, can be categorised into general deterrence and specific deterrence. General deterrence theorizes that there is a negative correlation between the crime rates and the certainty (generally arrest and conviction), severity (generally type and amount of punishment), and celerity (generally the elapsed time between the crime and penalty) of the punishment. Succinctly, deterrence theory suggests that when the ‘possibility’ of getting *X* value of punishment outweighs the ‘possibility’ of getting *Y* value of benefit out of crime, people decide *not* to commit crime.

Specific deterrence is the same concept as general deterrence but directed to individual offenders only. The aim of specific deterrence is to discourage certain types of criminals from committing crime rather than trying to create a fear of crime in the whole society.

After presenting the deterrence theory and the continuum of the classical school of thought, the following section continues on the modern status of the rationality argument in criminology.

3.2.3.2.3. *Situational choice theory*

Also called ‘Situational Crime Prevention Theory’, situational choice theory can help to explore and explain a wide range of crimes (Burke, 2005: 43).

There exist specific crime prevention tactics of situational crime prevention theory,

specifically designed for certain crime types (Siegel, 1995: 115). Three main tactics, increasing the effort, increasing the risks and reducing the rewards, are depicted in Table 3.2. as presented by Clarke (1992: 13):

Table 3.2: Techniques of Situational Prevention

Increasing the Effort	Increasing the Risks	Reducing the Rewards
<i>Target Hardening</i>	<i>Entry / Exit Screening</i>	<i>Target Removal</i>
Steering locks Bandit screens Slug rejector device Vandal-proofing Toughened glass Tamper-proof seals	Border searches Baggage screening Automatic ticket gates Merchandise tags Library tags Electronic point of sale	Removal car radio Exact change fares Cash reduction Remove coin meters Phone card Pay by check
<i>Access Control</i>	<i>Formal Surveillance</i>	<i>Identifying Property</i>
Locked gates Fenced yards Parking lot barriers Entry phones ID badges PIN numbers	Police patrols Security guards Informed hotlines Burglar alarms Red light cameras Curfew decals	Cattle branding Property marking Vehicle licensing Vehicle parts marking PIN for car radios LOJACK
<i>Deflecting Offenders</i>	<i>Surveillance by Employees</i>	<i>Removing Inducements</i>
Bus stop placement Tavern location Street closures Graffiti board Litter bins Spittoons	Bus conductors Park attendants Concierges Pay phone location Incentive schemes Closed-circuit TV systems	“Weapons effect” Graffiti cleaning Rapid repair Plywood road signs Gender-neutral phone listing Park Camarro off street
<i>Controlling Facilitators</i>	<i>Natural Surveillance</i>	<i>Rule Settings</i>
Spray-can sales Gun control Credit-card photo Ignition interlock Server intervention Caller ID	Pruning hedges “Eyes on the street” Lighting bank interiors Street lighting Defensible place Neighborhood Watch	Drug-free school zone Public park regulations Customs declarations Income tax returns Hotel registrations Library checkout

Source: Clarke (1992: 13)

There seems to be no doubt in the criminology literature that rational choice theories are the best theories to explain and analyse financial crimes. Therefore, the relevant literature encourages researchers to deploy rational choice theory for the specific financial crimes we are focusing on in our study.

In relation to the validity of rational choice theory, it should be noted that white collar criminals calculate and act decisively. Siegel (1995: 114) thinks that ‘fraud’ is a good candidate to show their intelligent crimes, because “[w]hen prominent bankers in the savings and loan industry were indicted for criminal fraud, their elaborate financial

schemes not only showed signs of rationality but exhibited brilliant, though flawed, financial expertise”. Besides, for almost all crime types, “[f]rom the criminal justice policy perspective, *unless offenders think rationally before committing their crimes there is little point to the deterrence argument*” (Lanier and Henry 1998: 81, emphasis added).

As for ‘manipulation’, in the context of rational choice theory “[t]he stock market manipulations of Wall Street insiders, such as Ivan Boesky and Michael Milken, ... demonstrate a reasoned analysis of market conditions, interests and risk” (Siegel, 1995: 114). However, the main target of the financial crimes is the financial resources, which are very hard to remove without making dramatic changes to the financial mechanisms frequently used by modern finance. Besides, focusing on the act and disregarding the actor would not yield a proper theory of crime to explain white collar financial crime.

3.2.3.2.4. Routine activities theory

Routine Activities Theory identifies crime patterns and links them to daily social patterns, social interactions of human beings. Finance is full of those patterns and some of them, after the realization of their weaknesses, are targeted by criminals. These patterns, undoubtedly, differ in various financial systems and thus produce different degrees of vulnerability.

Apart from being a variation of Rational Choice Theory, Routine Activities Theory is a sub-branch of environmental criminology as well. Most of the time, environmental criminology is taken as the geographical, spatial, physical surroundings of the run-time events related to crime. This is relevant to financial crimes too but financial crime has some additional characteristics it brings to environmental criminology because it operates mostly in electronic environments such as FOREX.

Unlike other criminological theories, including Classical School, Deterrence Theory, Justice Theory and Situational Crime Prevention Theory; Routine Activities Theory focuses on ‘crime’ and the situation, the environment in which it is committed and not on the ‘criminal’ and his/her characteristics. Routine Activities Theory properly explains some of the white collar crimes, such as, copyright infringements, employee related crimes, corporate crimes, competition crimes.

Clarke and Cornish (1983: 8) claim that “choices and decisions [are] made within a context of situational constraints and opportunities” and by doing so they determine the challenges for their theory: discovering environmental opportunities for crime and changing the “opportunity structure” to prevent it.

As we can see from Table 3.3, routine activities theory is supported predominantly and scarcely could be negated by scientific research.

Table 3.3: Empirical Tests (Assessments) of Routine Activities Theory

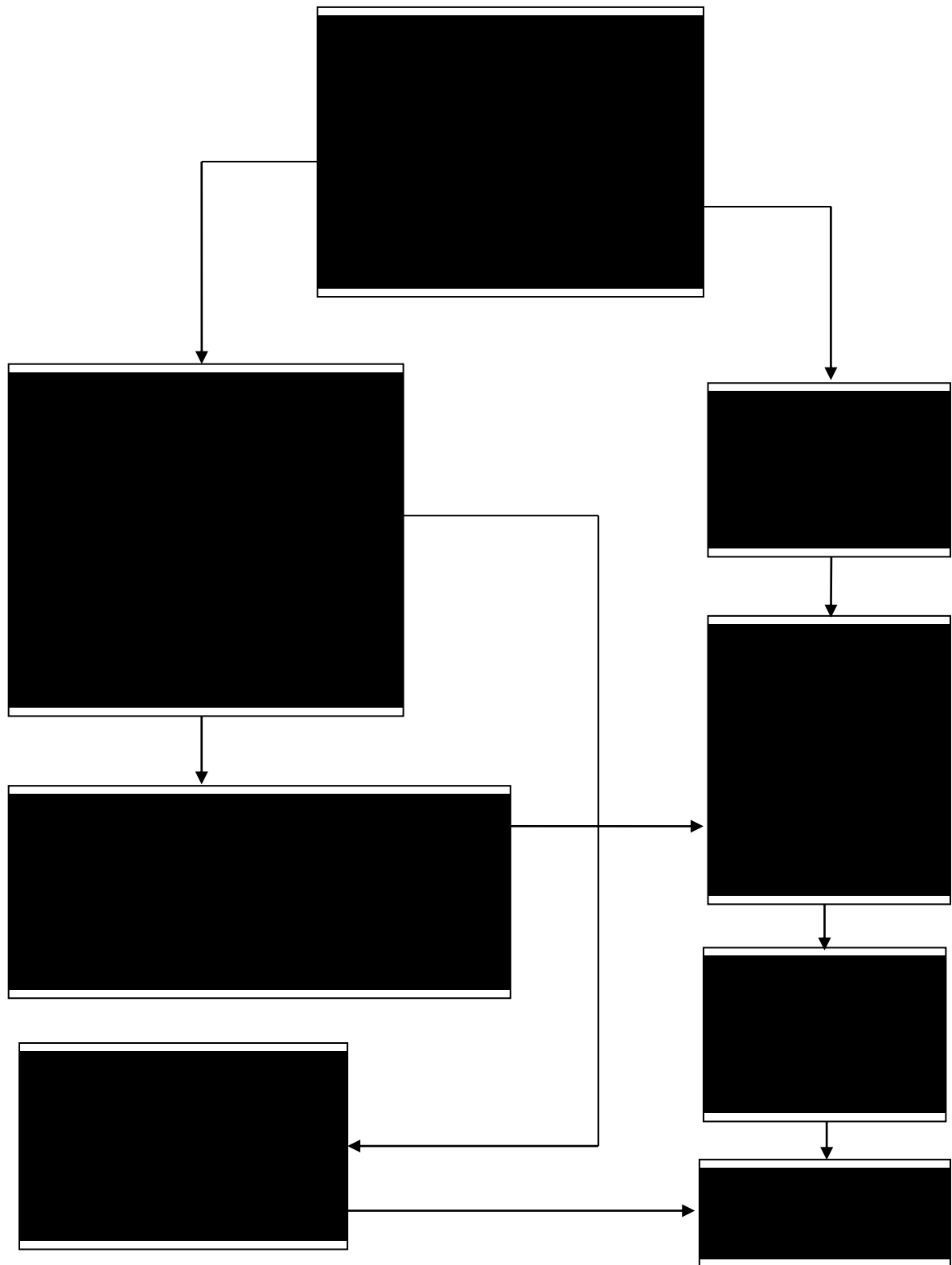
Author	Sample Size	Sample Type ¹	Main Finding	Support (+) Negate(-) Theory
Osgoode <i>et al.</i> (1996)	1,782-1,840	HS (age 18-26)	Juveniles who spend more time in unstructured social activities strongly associated with criminal behavior, heavy alcohol use, use of marijuana and drugs, and dangerous driving	+
Rountree & Land (1996)	5,090	Residents victim survey	Perceived risk of crime different from crime-specific fear for burglary, the latter better predicted by routine activities theory. Neighborhood Integration decreases perceived risk (fear of crime) but increases burglary- specific fear	+ -
Rodgers & Roberts (1995)		Statistics Canada Survey	Proximity, exposure and guardianship had limited to no connection with women’s non-spousal multiple victimization	-
Pettway, Dolinsky & Grigoryan (1994)	441	Repeat offenders (age 17-49)	Criminal activity related to participation in a wide range of recreational and social activities including drug use.	+
Lauritsen, Laub & Sampson (1992)		NCS 1976-1978	Youth engaged in delinquency experience highest risk of assault and robbery but few conventional activities when background factors considered.	-+
Bennett (1991)		52 nation cross-national study	Routine activities theory given qualified support but shown to be property crime specific, applying less to personal crime.	+ -
Kennedy & Forde, (1990)	74,463	NCS	Risky settings, out-of-home activities increase risk of crime, in-home activities decrease risk.	+

Stahura & Hollinger (1988)		UCR	Motivation, opportunity and guardianship have direct and / or additive effects on arson rates.	+
Stahura & Sloon (1988)		UCR	Motivation opportunities and guardianship are found to have direct and /or indirect additive effects on violent and/ or property crime rates, for property offenses but not for violence.	+ -
Lasley & Rosenbaum (1988)	850 & 250	BCS	Multiple victimization associated with high alcohol consumption, going out Friday or Saturday night, irregular work.	+
Sampson & Wooldredge (1987)	10,905	BCS	Highest victimization among young, single who frequently go out at night, leaving homes empty, crime-specific offenses of burglary and theft related to community-level variables.	+ -
Garofalo, Siegel & Laub (1987)	373	NCS	School related victimizations stem from escalation of peer activities during routine activities, which can be prevented by presence of capable guardian.	+
Miethe, Stafford & Long (1987)	107,678	NCS	Routine activities/ lifestyle variables have relatively strong direct and mediational effects on individuals' risk of property victimization but not for violent victimization.	+
Jensen & Brownfield, (1986)	3,644 & 550	HS	Collective fun-pursuing activities are more victim-ogenic than passive activities and delinquent activity is positively and more strongly related to victimization than non-delinquent activities.	+
<p><i>Note:</i> F = Female, M = Male, B = African American, W = White, Y = Yellow, HS = High School Student, CS = College Student, UCR = Uniform Crime Report Data, NCS = National Crime Survey Data, NYS = National Youth Survey Data, BCS = British Crime Survey Data, LON = Longitudinal Survey Data.</p>				

Source: Lanier and Henry (1998: 84-85)

There are three main conceptual bases of the theory: (i) Suitable targets, (ii) absence of capable guardians and (iii) motivated offenders. If all of these factors occur in a certain place and time, the crime is very likely to occur.

Figure 3.1: Reasoning Criminal of Routine Activities Theory



Source: Cornish and Clarke (1986)

According to the Rational Choice Theory, specifically Routine Activities Theory (RAT), the rational actor thinks and acts as in Figure 3.1. This is a good place to begin

the discussion of the motivated offender. As can be seen from the top of the chart, they assume psychological factors, upbringing factors and social and demographic factor such as temperament, intelligence, cognitive style, functionality of home, institutional care, parental crime, sex, class, education, neighbourhood.

These factors, along with the notion of 'limited rationality', bring many social and psychological factors into the theory and force us to take into account the major characteristics of financial systems and the implementing countries' cultures, belief systems, religions and ethical positions in order to compare their motivations. Nevertheless, RAT does not render explanations about the motivation towards crime but assumes an automatic motivation in case of opportunity which is disputable by many examples (*i.e.* pickpocketing despite severest punishment, Lanier and Henry's (1998: 69) research).

3.2.4. Criticism of Rational Choice Theory

One can divide the critics of Rational Choice Theory, or any other theory for that matter, into two groups: sound and just critics and rhetoric and unreasonable ones. The latter can be exemplified by the following rhetoric: "professionals under government patronage prefer to think that crime is an outcome of an opportunity" (Burke, 2005: 43), because this viewpoint fails to realize that economic and financial issues are all about calculation and criminals are used to doing this in their everyday life. Thus, it should be taken as very realistic to assume much credit on a lot of calculation especially for financial criminals.

Sullivan (1973) argues that "[in] the first instance, ... the amateurish criminal who makes wildly inaccurate estimates is no less a rational being than a consumer who runs up huge debts". Trasler (1986) agrees and emphasises the similarity between criminals' decision making and the economic decision making in marketplaces.

In reflecting on the economic analysis aspects of criminality as identified in Rational Choice, Lanier and Henry (1998: 79) call the assumption that "the benefits of one type of crime are not equally available from another or from the same crime in another place" (*crime displacement*) as a "dubious assumption" and they claim that "one neighbourhood's cleanup can become another's crime problem".

Indeed, Cornish and Clarke (1987: 935) do not deny this possibility. According to them, crime substitution, rather than crime avoidance, is possible if “alternative offences share characteristics which the offender considers salient to his or her goals and abilities.” However, as Bennett’s (1986) research showed, opiate users do not displace because drug cultures that are appealing to certain criminal groups are not that appealing in other places.

Siegel (1995: 118, emphases added) raises the following criticism against situational crime prevention which is confirmed by research from Stanford University:

Crime reduction programs may produce a short term positive effect but benefits dissipate as criminals adjust to new conditions. They learn to dismantle alarms or avoid patrols, they may become motivated to try new offenses they had previously avoided. For example if every residence in a neighbourhood were provided with a fool-proof burglar alarm system, *motivated offenders* might then turn to armed robbery, *riskier and more violent crime*.

Clarke and Weisburd’s (1994) response to this criticism is the compatibility of the positive effects of the same concept with the negative effects of it. They call it ‘diffusion of benefits’. Criminal justice policies may aim to deter one specific type of crimes but unintentionally, their efforts may prevent other kinds as well. For example, street cameras in front of banks may aim to deter crimes against ATM machines, but they prevent violent crimes around the cameras as well. However, the diffusion effect is only a peripheral advantage and does not make the core of the theory stronger.

Akers (2000: 60) criticizes rational choice theory on the grounds that the limited rationality approach reasons the functioning of factors other than rationality in the decision making process of offenders. He claims, when factors like morality, family ties and peer groups are accounted for, the rational decision-making process can be questionable. Eventually, Akers argues that rational choice theorists may not be aware that social learning and bond theories demonstrate that the impact of these factors are indeed greater than the impact of rationality. Akers’ (2000) criticism is a strong one and an improvement of rational choice theory lies in the attempts at responding to this and similar other criticisms.

3.3. COMPARISON OF THE ALTERNATIVE PARADIGMS OF (FINANCIAL) CRIME

Every culture has its own vistas of crime, financial or otherwise. We define culture as a nationally common conceptualization, common understanding, and disregard the sub-cultures in a given culture while discussing it. The ontological sources of each culture provide distinctive norms related to every aspect of life including crime. For instance different cultures have not only different definitions of crimes but also a different paradigm to be used while defining, researching, investigating, prosecuting, punishing, rehabilitating them. For instance, a few decades ago, using US dollars was a crime in Cuba, while it was not in the US for obvious reasons. On the other hand, going to Cuba for a visit was a crime in the US but visiting the US was not in Cuba.

In many ways, 'criminal acts' are related to the dynamic meanings of 'norms' and 'alternatives' to the norms. Examples of using money or travelling to foreign countries are given above. These acts are not '**norm-ally**' crime, however, some of the alternative acts are elevated to the functions of 'norms' in the modern world such as international travel unlike other 'alternatives' like a ban on visiting Cuba or banning the use of US Dollars. This alleviation process makes these alternatives mere 'deviations' from the international norms. Nevertheless, their unpopularity or lack of appreciation by a Eurocentric viewpoint does not make them unjust or irrational. On the contrary, making better sense of the international norms is possible by critically and continuously comparing them with the alternative paradigms, because all the discourses are reinterpreted and evolved in the course of time and it is very hard to separate criminology and criminal justice from the power sphere of politics (Shelley, 1979a: 622) in the world. It is, then, a must for all the paradigms of crime to continuously check themselves with the available, compatible others in order to learn, benchmark, adapt from them and by doing so, keep their vigour.

Additionally, the aetiology of crime is not only internationalized (Taylor, 1998), but also interculturalized. Many countries used to represent a more different set of moral, ethical, religious, philosophical differences and differences of lifestyles and worldviews. Recently however, geographical globalization has brought about cultural resemblance, cultural unification of human conduct through convergence. Crime is,

no doubt, being affected by these mutual effects and hence, alternative paradigms are more relevant than at anytime else in the history of science in recent decades.

The following sections provide a brief discussion of alternative criminological views of ‘crime’ by the criminological intellect in major financial systems. In doing so, only paradigms that are relevant to the case studies in this research are referred to, in order to keep relevance and to beat time and space constraints.

3.3.1. Criterion of Comparison between Criminological Perspectives

There are many factors can be utilised in comparing different criminological perspectives. Berger (1988: 281-282) for instance mentions their “theory of social change, [their] causal explanation of criminal behavior, [their] conceptualization of law and crime rates, and [their] view of the relation between collective political behavior and crime”. There is no doubt that each of these criteria of comparison would yield valuable results; however, the needs of operationality and feasibility restrict us to using the following comparison parameters only, in order to evaluate default and alternative perspectives of crime and criminology:

- (i) Fundamental methods of criminologists,
- (ii) their positions in relation to the individual,
- (iii) to society and
- (iv) to the material world.

As an essential criterion, the individual’s place is crucial in all capitalist and Islamic discourses, criminological or otherwise. Similarly, study of individuals along with the society is the main aspects of criminological research in socialism (Buchholz, 1974: 3) as well. Societal effects are not disregarded in Capitalism and Islam, but not emphasized as much as in Socialist discourse. Position in relation to the material world is also critical for presenting the distinctions of the criminological systems. In Islam, the material world is considered to be a cause of ignorance (Kimball and Teaching Company, 2008) and accepted but not praised as much as in Capitalism. Socialism in its most core position, though, opposes private property and unbalanced delivery of material values between different strata of the society.

In addition, the ‘information processing habits’ of these systems or discourses are useful for distinguishing them as well. However, we may basically differentiate them by saying that in Capitalism, information is processed by and for the benefit of individuals in this world, in Socialism, by central authority and for the benefit of the society in this world, and lastly, in Islam by the individuals for the benefit of initially individuals then societies in this world and the hereafter too.

3.3.2. Default Criminology Literature as the Representative of Market Economy

The Eurocentric literature on criminology can be regarded as the representative of a market economy’s views and perspectives of crime as a phenomenon and problem. According to the preponderance of the Eurocentric literature, crime is a problem but it is normal to have this problem. Either faulty biological or psychological bodies or the malfunctioning parts or processes of the society will cause crime.

This literature has attracted a great deal of attention from all over the world probably because it spread into many diverse areas and extended the boundaries of criminology as a multi-disciplinary field of study. However, it is hard to say that the Eurocentric approach has a consensus on the causes of crime, even on a circumstantial basis. The main characteristic of this approach then would be the ‘conflicting ideas’ about the possible causes of the ‘problem’ of crime.

Crime rates are very high in market societies. According to the figures of the International Centre for Prison Studies (2012), the US tops the international list with 730 inmates per 100,000 of population. Mainstream criminologists see crime as a consequence of modernity and claim that the higher the achievements of a country in terms of modernity and prosperity, the higher the crime rates will be. So, according to the market view of crime, deviant behaviour is mundane: it happens very frequently and there is nothing spectacular about it (Durkheim, 1965).

According to the Socialist view, however, the existence of crime in society is very surprising, even unexplainable (Buchholdz, 1997). Socialists do not even accept the existence of crime as a problem in socialist societies; to them, crime should not exist in such societies at all. The religious view also sees crime as normal but still as a problem. According to the Christian, Jewish and Islamic tradition, Adam descended to the Earth from Heaven because of the crime he and Eve committed. Many established

world religions see the world as a place of test after which some fail. Thus, failure to obey secret law is expected by at least some of the members of the society in religious viewpoint but it is still a problem.

3.3.2.1. Fundamental methods

Both on the national and international level, the method market society uses to deal with crime is 'reactive' rather than being 'proactive'. This may indeed be one of the reasons why market societies do not agree on certain reasons of crime causality because crime, to them, is a problem of modernity, a consequence, and thus, inevitable. In Capitalist countries, people should choose between two alternatives: "high standards of living with a high crime rate or a low standard of living with low crime rate" (Buchholz, 1974: 7-8).

This is why the Market Society usually focuses on policies rather than the proactive precautions against crime. Unlike market societies, both the Socialist and the Islamic views of the crime are proactive, these systems try to eliminate crime via ideal, functioning, good society, rules and social structure. Market Society is pragmatic and non-ideological, non-idealistic, but both Socialist and Religious Systems act on certain sets of idealistic, ideological rules, on common conceptions which affect the social structure and organization of the society. According to Hayek and Caldwell (2007) market societies do not have such collective purpose and this is an advantage for a free society because uniting people under such common purpose in liberal societies is not possible. Hayek (1997: 184) wrote "it is the great merit of a liberal society that it reduces the necessity of agreement to a minimum compatible with the diversity of individual opinions which will exist in a free society."

This fact about market society is valid on the trans-national level as well. Crime fighting is mere policing (after-crime-measures) in many of the market societies, whereas in Islam policing as an institution to seek, find and report crime does not even exist (Quran, 49: 12²⁵).

In this sense, Islamic solutions are usually preventive, proactive solutions and Market

²⁵ "O you who have believed, avoid much surmise; surely some surmise is a vice. And do not spy on each other, (literally: some of you on some others) nor backbite one another; would any of you love to eat the flesh of his brother dead? So you would hate it! And be pious to Allah; surely Allah is Superbly Relenting, Ever-Merciful." Translation by Dr. Ghali

solutions are *a posteriori* solutions even on the international level, as shown by Ruggiero et al. (1998).

“Market-liberal rhetoric recognises the trans-national character of a selection of crime problems discussed in the public sphere – specifically, trans-national criminal trades in drugs and other illicit substances and the trans-national movement of criminals themselves – but speaks only to trans-national police responses” (Ruggiero et al. 1998: 32).

Asutay (2007: 12) summarizes the fundamental methods of the market economy and says that the market society is based on ‘market exchange’. “The point of departure [of market society] is methodological individualism” because it is made up of “self-interest oriented individuals who a) seek their own interests, b) in a rational way, and c) try to maximise his/her own utility”.

Asutay (2007) rightly puts individualism at the heart of market society because the main concern of market society is the happiness of the individual and the utility maximisation of the individual. The discussion about the maximization utility discussed by Mill (1972), Bentham (1982) and others are relevant facets of this individualism.

Market society perceives crime in the mechanisms and functions of the market. These ‘problems’ of crime are the ones that need specific services. There is a demand for security in the society and there are institutions that are entitled to provide relevant services to fulfil that demand. If they are not successful enough to satisfy the demand, then, “the preferred response of the market liberal [societies] to serious crises of crime, and to other unfolding problems of individual and social dislocations and harm, is to see them as challenges to managers of particular, segmented markets” (Ruggiero *et al.*, 1998: 29).

The method of overcoming this problem and leading the unsuccessful management “in respect of crime and fear of crime is to separate out statistics on the severity of a particular crime problem from their immediate and historical context, and to make the reduction of that statistic the object of managerial strategic thinking and action” (Ruggiero *et al.*, 1998: 29). Ultimately, a better service is produced and offered to the market society for consumption. If the demand lessens, relevant institutions of market

society will understand that they are successful in dealing with crime.

Taylor (1998) claims that losing against the criminals but after an honourable struggle is favourable for FBI and similar police organizations. This and similar arguments can be taken as doubts about the reliability of the market institutions and the data they produce on crime rates. However, we also need to remind ourselves that transparency is taken seriously by market societies.

The Eurocentric view, especially since the Reagan – Thatcher era, is liberal in many ways. Its position in regard to religion is mostly agnostic and/or under the mild influence of the Judeo-Christian belief system (Williams, 1997: 14; Singer, 2000). Crimes in market economies take place in such an environment and may be affected by it *de facto* but not necessarily *de jure*. Many crimes or unlawful acts in Christianity and Judaism do not exist in the criminal codes of the market system (*i.e.* interest).

The Eurocentric viewpoint accepts the existence of conflict in their society and they also claim that this conflict is necessary for the advancement of the society. Thus, conflict, as a methodology of existence of modes of production and social formation, is considered to be the source of sustenance of capitalist societies, as argued by Marxism. As an extension, success should be rewarded and failure should be punished, similar to the Darwinian viewpoint, so that society will be transformed into a more advanced form of the society. Similar to Socialist societies, Market societies are mostly positivist and materialist, which is in coherence with the Darwinian view of conflict and dialectics.

Especially dialectics seems to be pervasive in the criminological discourse of market societies, although not emphasized as much as by socialists, because there is no consensus between the schools of criminological theories. The historical development of the theoretical works shows that almost all of the schools came into existence by criticizing the earlier theor(y)ies and not appreciating the scientifically sound components of their scientific (!) predecessors.

This position of market society also shows its standpoint about ‘change’, which is similar to the socialist view: ‘sudden change’. Islam on the other hand advocates incremental change as reported in one of the sayings of the Prophet of Islam (Muslim,

Repentance, 37: 6642²⁶).

3.3.2.2. Position in relation to the material world

Accumulation of wealth is arguably the *raison d'être* of Capitalism and Market Society, which dates back to the East India Company, trading between India and England, which was owned by many investors in England. Indeed many more examples exist in the past.

In terms of distribution of wealth and income, a rich – poor dichotomy is visible in capitalism and is not seen, as in Socialism, as a shortcoming but as a motivation mechanism.

As regards to the philosophical foundations, compared to Socialism, Capitalism is less positivistic but more materialistic. The material world is not eternal in the past because most of the European and American institutions and societies believe in the Big Bang and Thermodynamics Theories in physics. The living world, according to capitalist societies, evolved by means of Darwinian mechanics and is still evolving.

In the market economy, material products satisfy the needs of people and please them by supplying utility. Thus, consumption, a way of reaching utility maximization, is very important for both individuals and societies in the market system. Inevitably, with such consumption attitudes, there are certain parts of the society which cannot achieve enough material goods and services as they need or like and this is said to be the prime reason of crime in market societies, that is, deprivation of needs or wants. Thievery, burglary, stealing, robbery, pick pocketing, shoplifting, larceny, pilfering, and many more different forms of acquiring materials unlawfully exist and are articulated in market societies.

²⁶ “Abu Huraira reported from Allah's Messenger (may peace be upon him) that his Lord, the Exalted and Glorious, thus said. A servant committed a sin and he said: O Allah, forgive me my sins, and Allah (the Exalted and Glorious) said: My servant committed a sin and then he came to realise that he has a Lord Who forgives the sins and takes to account (the sinner) for the sin. He then again committed a sin and said: My Lord, forgive me my sin, and Allah, the Exalted and High, said: My servant committed a sin and then came to realise that he has a Lord Who would forgive his sin or would take (him) to account for the sin. He again committed a sin and said: My Lord, forgive me for my sin, and Allah (the Exalted and High) said: My servant committed a sin and then came to realise that he has a Lord Who forgives the sins or takes (him) to account for sin. O servant, do what you like. I have granted you forgiveness. 'Abd al-A'la said: I do not know whether he said thrice or four times to do what you desire". The hadith has been narrated on the authority of 'Abd al-A'la b. Hammad with the same chain of transmitters.”

3.3.2.3. Position in relation to individual

In market economies, individuals are buyers (consumers) and sellers (producers). They are self-interest seekers, utility maximizers; as they have a free will. In market societies, this means that they are free to choose between alternative choices of many products and services. Individuals are in competition with each other for the best price profitable for them, for the available positions of work *etc.*

As mentioned by Asutay (2007: 182), the “individualistic attempts at maximising personal interest became the prevailing norm,” in market economies. Society and its conflicting relations to the individual - especially when possible restrictions to freedom are concerned - are usually disregarded for the sake of individual freedom but, of course, dispositions of individuals are – at least partially – controlled by the market because “there is a market liberal interest in encouraging a certain level of anxiety in individuals” (Taylor, 1998: 22). Fear of unemployment, for instance, is needed in order to hire a hard-working employee for a reasonable wage; fear of not having certain material goods is needed for the continuous consumption.

Libertarianism is very relevant in this regard. Market societies are liberal in many senses because this is needed to ensure freedom of choice and individual independence and liberty. Compared to other individuals in alternative systems, the individual in a market system has a different risk behaviour (Keat and Abercrombie, 1991) and “the willingness to take risks, especially of a financial kind can be thought an essential attribute in the character-armour of the market entrepreneur” (Taylor, 1998: 21, emphasis added).

One continuing feature of the culture of the market in the 1990s is the emphasis which is placed on the *widening of such risk-taking capacity or interest to a wider section of the population*, as for example when taking out insurance, borrowing monies for the purchase of a home or entering directly into dealings in the stock and bond markets.

3.3.2.4. Position in relation to society

Discussion of social good or the relationship between individual and society is not completely irrelevant to market societies, but only slightly mentioned and appreciated. For instance one of the important figures of the market system, Bentham (1995), refers to Joseph Priestly and says: “Priestley was the first [...] who taught my lips to

pronounce this sacred truth: - That the greatest happiness of the greatest number is the foundation of morals and legislation”.

Market economies are mostly multi-party, parliamentary democracies, which compete for votes in elections and form a colourful parliament, which then interact, competing on certain policies. Politicians provide a public service and if they can sell their service before the election time to the public, they are re-elected, if their managerial service is not liked by the voting public they are replaced by another, rival service provider, namely another party.

In market economies, market forces define “the kinds of expectations placed on elected politicians and on different public and private agencies (schools, hospitals, police) responsible for the delivery of specific services in the market society”, and customers are entitled to receive services like good policing and good justice (*i.e.* state regulation *vs.* regulation by market) from different providers in the market (Taylor, 1998, emphasis added). The state is only one of those providers and this is why we see incorporated police services (*i.e.* in the US, the EU, Turkey *etc.*) and private or autonomous regulatory services (*i.e.* the EU market regulatory authorities) in market societies. In socialism, such private services are not possible because all the individuals are considered to be ‘comrades’ who constantly work for the good of the society. This is why socialist institutions for the public are very rarely replaced by others if replaced at all.

Institutions of market society, including a police force, are needed only for functional reasons, because they supply a product or service for the society and these services should be tailored according to the desires and appreciation of their societies. In case of their failure they are either reorganized or are seen as a piece of the non-functional whole and replaced altogether by the replacement of the governing party

Companies compete to increase their market shares and profits in national and international markets. Countries are in conflict as well and they try to maximize their security and prosperity (usually as GDP) in the international market.

3.3.2.5. Position in relation to financial crimes

Theoretically and from a comparative point of view, ‘financial’ crimes are more

important in market societies than alternative systems for obvious reasons. Financial services play a crucial role in Market Societies as in the US and the UK, for example, and this is why financial crimes are punished, but adultery for instance is only discouraged, whereas in Islam punishment of adultery is severer than of financial crimes because 'iman' (salvation of the soul) and related institutions are the main concerns. Similarly crimes against solidarity (*i.e.* being against the revolution) are considered to be more critical compared to financial crimes in Socialism.

However, interestingly enough, the criminology literature of market societies does not articulate much about this phenomenon despite its great - probable and realized - effects on public utility loss, affecting millions in some instances.

Market society's punishments of financial crimes are considerably lenient compared to other alternative systems too. This is probably because of the market system's perception of the free and evolving individual in a process of utility maximizing efforts. In a sense, codes of behaviour or the definitions of specific crimes are evolving, dying and emerging along with the evolving individual and the society in market societies unlike Islam and Socialism where solid, long lasting and stable definitions of crime exist.

3.3.2.6 Seeking a consensus/standard for criminological discourse of market societies

Many academics follow criminology literature back until Becceria in Italy and Bentham in the UK in the late 1800s. Preceding these, religious and spiritual crime theories were being used in Medieval Europe, while the Enlightenment period in Europe shifted many perceptions and understandings about crime and the science of criminology flourished afterwards.

Modern definition of crime is rather pragmatic in market economies. Whatever fits into the required field of crime definition for the survival of the market society is enacted by governments as crime.

As for a standard theoretical discourse, we may repeat that the Eurocentric paradigm has a dispersed picture of crime and criminal. Criminologists that are harvesters of this paradigm have distant ideas ranging from Durkheim (crime is mundane and

functional) to Marx (crime is extraordinary and is a result of class conflict, unfunctional). By referring to this multiple-causality-approach of the Eurocentric criminology one can argue that in a market society, almost every kind of deprivation or deficiency, ranging from the DNA, neurons, hormones, genes to family ties, peer groups and economic conditions can be considered as a cause of crime.

However, the classical school has almost always been preferred and favoured by governments and many of the policies regarding crime are based on this theory and its follow-up theories. We may then take the classical and neo-classical schools that are mainly based on utility²⁷ as the default perspectives of Western criminology, with some limitations of course. This view is also in accordance with the pragmatic, adjustable crime definition of market societies changing according to the dynamic nature of the society and calculated rationalities of individuals in those dynamic societies who refrain from or commit crime.

As for the number of definitions or the density of crime in public life, many market societies do not suggest unregulated anarchy in markets but they allow only few definitions of crime especially in finance. Despite all the discourse of liberalism, individualism, freedom, choice and market, they are aware that at least a loose form of regulation is needed. As Taylor (1998: 21, emphasis added) suggests, in Britain,

one of the most difficult problems for market individualists in the 1980s and 1990s has been that of deciding on the optimal acceptable level of regulation of such financial services markets. This is a continuing and unpredetermined issue within free-market societies. Even in the aftermath of a series of money-laundering, long-term frauds, and insider-trading scandals in Britain - the prospect for survival of the Serious Fraud Office, set up in the 1980s specifically to regulate this kind of various economic fraud, is looking slim.

In Italy, similarly, “struggles between Silvio Berlusconi’s Forza Italia Party and the Clean Hands judiciary can also be understood as a (very vigorous) debate about the appropriate parameters of legitimate business and government practices in competitive market environments” (Taylor, 1998: 21).

²⁷ Please note that these theories are based on the main conception of **utility** just like many of the institutions of the Capitalist/Market society.

3.3.3. Socialism and Crime

‘Socialist’ criminology has many similarities to its Eurocentric counterpart, namely the Market System. It can be regarded as an alternative, self-sufficient criminological discourse, because, unlike the Eurocentric approach, in socialism, the definitions of crime and possible causes of it are commonly agreed upon (Buchholz, 1974: 2; Streit, 1968: 3). In other words, socialist criminologists are in consensus about the root-causes of crime: the causes are ‘social’ (Streit, 1968: 3) in ‘*social*’ *ism*.

Although it has been subject to criticism, because of lacking diversity, socialist criminology had some achievements that are distinct in many ways. Some researchers even claim that its “diversity and level of sophistication of crime research has been duplicated on a mass scale in the West only in the post-World War II period” (Shelley, 1979a: 391). Socialist criminology also pioneered studies of victimology, of the effects of movies on criminality, glorification of negative heroes, overemphasis on sexuality (Shelley, 1979: 394).

Socialist criminological discourse is rather unusual in its approach. Unlike its peers, socialist criminologists announce the immense difficulties of studying criminology. For instance, Buchholz *et al.* (1974: 1), at the very beginning of their book ‘Socialist Criminology’ write that: “criminality is, in the final analysis, a complex and complicated phenomenon, internally diversified and structured, a phenomenon which cannot be correctly or comprehensively understood in its origins and causes”.

There is little doubt²⁸ that all the socialist countries have been copycats²⁹ and imitated the Soviet template of socialism, which implicitly makes the principles of Soviet criminology a must to refer to. Salas (1979: v) criticizes this understanding but also argues that Soviet criminology represents much of socialist criminology. Reichel (1999: 101) as well writes that “[t]he role Russian law played in creating a socialist legal tradition is relevant to other socialist countries to the extent that it helped form Soviet Law”. We may then confidently argue that ‘sociologist criminology’ has been initiated in Soviet Russia, in 1917 by the establishment of the first criminological

²⁸ For instance the claim in one of Chomsky’s TV speeches that Soviet Russia has never been a socialist state because it offered nothing for the workers although it was supposed to deliver the means of production to them, is a valid one but then one can talk about theoretical socialism’s superiority over its application.

²⁹ Reichel (1999: 101) believes that some of “the new socialist countries were anything but duplicates of the Soviet legal system”.

research centre in Petrograd. Then Moscow, Leningrad, Saratov, Rostov followed Petrograd by opening up new institutions in which criminologists like Gertsenzon, Utevskaa, Shirvindt began studying crime. In 1917 again, the first criminology journal '*Proletarskaiarevoliutsiiaipravo*' appeared (Shelley, 1979a: 615).

3.3.3.1. Fundamental Methods

Adapting from Asutay (2007: 12), we may form methodological fundamentals of socialism. In socialism, 'the point of departure' is society, while the 'behavioural postulate' of it is common interest oriented individuals who a) do not seek their own interests but the society's interests, b) in a rational way, and c) try to maximise society's collective utility; in a centralized way and as a pure-monopoly of all economic activities.

Fundamentals of socialist methods are based mainly on 'positivism' and related terminology like 'determinism', 'materialism', 'scientism'. Socialists are strictly against religion³⁰ and spiritual ideology. They rejoice in atheism in the state and society and embrace positive sciences even for the advancement of social sciences in its Marxist form. China for instance is officially an atheist state (Lewis *et al.*, 2009). Indeed, this was obvious in Russian socialism in practice and theory in the writings of Marx, Engels, Lenin and other socialist scholars (Lenin, 1933).

It is hard to encounter much statistics and mathematics talk in Eurocentric criminological discourse, but in socialist criminology the literature is full of mathematics, statistics, numbers and logic. Bernstein, a critic of socialist reasoning, describes the basic tenets of Marxist socialism similarly as "science", "material conception of history and historical necessity" and "class conflict" (Bernstein and Tudor, 2002: 9-29).

As for the discussion of the 'class conflict' in capitalism versus 'classless society in consensus in socialism', it can be argued that socialist ideology is aware of the existence and important role of conflict in society, probably by observing conflict-based-societies in history, but they seem to claim the elimination of it by means of eliminating private property. In a way they realize the tensions the conflicts produce

³⁰ There were religious offenses described in the criminal code of 1922 Soviet Russia.

in the society and try to eliminate the tensions (such as crime) by eliminating the conflict via creating a homogenous society with arguably less potential energy.

Socialist criminologists, thus, are positivist in methodology despite accepting the social nature of crime because they believe in social determinism (Carrabien *et al.*, 2005: 73 agrees that socialism is deterministic), which reveals itself in the studies of behavioural science. To Buchholz (1974: 139) for instance, “[i]n order to comprehend criminality in its social determination one has to start from the social determination of social behaviour generally”. It is, for instance, very common, in socialist discourse, to come up with the adjectives like statistical, dialectic, kinetic; probabilistic, stochastic, deterministic, materialistic *etc.*

Thus, although studying ‘left realism’ is useful for understanding the socialist concepts, conceptualizations and perspectives, it is not enough even to understand the real, applied socialist theory of Socialist Criminology. In this respect, one can argue that studying Marxism also would not help much in commenting on applied, current processes and problems and theories of socialist criminology because applied socialist criminology sometimes diverged from Marxism too, for instance by studying biological (non-social) aspects of criminality.

3.3.3.2. Position in relation to material world

According to Marx and his followers the material world is eternal both in the past and in the future and the whole history of mankind is shaped by its position in relation to the material world. Socialists are extremely positivist too, but arguably they are the least materialistic among all three systems we compare.

Socialist societies do not produce and consume much when compared to market societies and they ban private property, making material gains very undesirable and mundane in the society because nobody has anything special to offer or to be attracted by. This fact is portrayed by Hank Rogers, a software trader in Soviet Russia in 1989: “One big impression in Moscow I have got at the time was there is no colour anywhere. There is no advertisement. Nobody is trying to sell you anything” (Temple *et al.*, 2005).

Socialists see the history of mankind as a history of materialist relations and structures

competing one over another. Historical materialism is widely used by Marx in many of his and his followers' works.

3.3.3.3. Position in relation to individual

The sphere of the individual is very small in socialist countries. The individual is, mostly, referred to only in relation to society in the sense that crime is considered socially constructed (Horz, 1968: 327). Individuals after committing crimes are considered to be the victims of the social debris of capitalism in socialist society. Personal, individualistic studies exist but they are understood in the context of and in relation to social facts and functions. For instance, Buchholz (1974: 3) argues that

The personal aspect focuses criminological research on the exploration of .. personality features ... This makes it possible ... to identify attitudes and social behaviour dispositions, as well as thought and living habits which have developed in the process of social and personal development, and these in turn make it possible to draw conclusions about the system of social prevention, of early diagnosis, of treatment and of integration.

Central planning of the economy is another reason why the individual is not emphasised in Socialism, as individuals do not have many choices and alternatives in centrally planned economies. They should, therefore, enjoy whatever is offered to them by the central planner.

This notion of 'un-individuality' implies that individuals when they claim alternative choices are either seen as a sub-mechanism of a social force or a threat to central planning. For instance in Soviet Russia, embezzlers, when it was realized most of them were orphans, were seen by the criminologists as a signal of a social problem and their crime was viewed as "a form of compensation for the difficulties they encountered in early life" (Shelley, 1979: 392) while in Cuba, for some time, burglary was "redefined as a political crime" (Salas, 1979: 3).

Nevertheless, principles of rational choice theory are not completely abandoned by socialist criminology. Buchholz (1974: 16) for instance recommends principles that are very similar to the modern situational crime prevention and routine activities theories:

a structural analysis can, moreover, be bracketed with distribution in time, such as season, month, week or even time of day, and this - correlated with

other parameters - may provide valuable information for time-oriented preventive and crime-fighting measures. Analogous information may be obtained on spatial distribution in a narrower sense.

Indeed the 'rational choice theory', which is not socially but arguably individually based because it relies on the rational calculations of individual perpetrators, has not been appreciated by socialist discourse, probably because of the latter's heavy devotion to Marxist social theories, but it is also not alien to socialism since it is all about rationality, science and calculation.

3.3.3.4. Position in relation to society

Unlike their capitalist counterparts, socialist societies and institutions are in consensus. They do not compete for market shares or extra profit. They see other world governments as big worker unions and they aspire to a unification of all of these state-unions under a big confederation of unions.

It should also be mentioned that socialist societies are the societies of commonality. Whatever people have it is considered to be everybody's property. There is no private property or intellectual property other than the state's properties. For instance, "individual ideas [are] owned by the state to be shared by everyone" (Temple *et al.*, 2005) or sold to the outside world by the state for the society with no return to the original inventor, producer, author other than a salary planned beforehand.

Socialism is based on a society which uniformly distributes power and wealth and condemns private property. Consequently, all the people living in a socialist country are supposed to be equal to one another. In socialist countries, the state is visible in every part of human conduct; social, economic, bureaucratic or otherwise.

Socialist scholars believe that until the society becomes completely communist, there is a need for courts, laws, police, prisons etc. but once this aim is achieved people will stop committing crime and there will be no need for law at all (Terebilov, 1973).

Despite these enormous differences, socialism retains the remaining Western philosophy. They for instance refer to the same people in their intellectual history, such as Hegel, but with different interpretations.

3.3.3.5. *Position in relation to financial crimes*

As for financial crimes, which are studied under the main branch of white collar crimes in Capitalism, they are not accepted as a valid phenomenon in Socialism. For instance, to Buchholz (1974: 7), concepts like the “‘crimes of affluence’ ... are designed to manipulate people’s minds.”

In recent years, however, white-collar-crime is an accepted phenomenon in Socialist societies despite “draconian regulations designed to prevent white-collar crime” (Financial Times, May 20, 2011). WCC is named as ‘*guayabera*’ (a kind of distinctive dress) crime in Cuba, which is a country that

is fertile ground for corruption. After 20 years of economic crisis, and with state wages worth around \$20 a month – a level that the government admits does not cover necessities – almost all Cubans engage in illegal activities to survive and the huge disparities between peso salaries, worth just a few dollars a month, and the influx of strong currencies, even in very small amounts, create extremely strong incentives to become corrupted. (Financial Times, May 20, 2011)

The whole terminology of mainstream criminology becomes obsolete in classical sociological discourse. Most of the time, the usual terms convey the exact opposite meaning in socialism. For instance, there is a crime related to monopolies but this can be committed by individuals who act against the power of monopolies. Nevertheless modern China has a competition authority in the classical Western sense.

Speculation and violation of government monopolies were crimes in Soviet socialism in 1922, 1926 and following criminal codes (Shelley, 1979a: 616-617) and some journals like ‘*Institutugolovnoipolitiki*’ and ‘*InstitutSovetskogostroitel’sstvaiprava*’ were focusing on speculation, along with a few other kinds of crimes (Shelley, 1979: 627). “After the revolution and during the civil war, the overall amount of violent crime increased and the economic crimes of speculation and theft of personal and state property rose dramatically”, peaked in 1924 and continued until the end of the decade (Shelley, 1979: 393).

The term ‘corporate crime’ is another example. There are no private corporations in socialism but only state enterprises. Thus, all corporate crime, which is “done for the benefit of a private business” (Hagan, 2010: 223), becomes either ‘organizational crime’ or ‘political crime’ in socialist countries.

White collar criminals are most of the time political people in socialist countries and although regular rates of crime are generally low in socialist societies white collar crimes are not very rare. For instance in Cuba, in 2010,

the Cohiba-puffing Manuel García, the long-time vice-president of Habanos S.A., a joint venture with London-listed Imperial Tobacco and the exclusive distributor of the island's famous cigars, was arrested along with a number of other executives and staff" and in 2011 "hundreds of senior Cuban Communist party officials, state managers and employees [lost] their jobs and sometimes their freedom" because of *guayabera* crime because especially in the external sector, "foreign trade and off-shore activities make corruption easier" (FT, May 20, 2011).

3.3.3.6 Seeking a consensus/standard for criminological discourse of socialist societies

Socialism's definition of crime is similar to both the 'Socio-Legal Approach' of Sutherland and to the 'Legal-Consensus Approach' of Tappan, because whatever is coded as crime by the state is crime but the codes are enacted for the benefit of the society only, sometimes even disregarding the rights of the individual. Nevertheless, it is arguable whether or not criminal codes are of the society or enacted to socially engineer the society. In this regard it can be put under a separate title of a 'mere legal approach' to crime.

Socialist criminologists accept that legal codes cannot always address the social problems in advance. This is correct the other way around as well. According to the German interpretation of socialism for instance "[t]he criminal law ... has a decisive influence on the structure of general criminality" (Buchholz , 1974: 15).

As for a standard theory of crime, one can argue that the principles of socialism force socialist criminologists to utilize only social theories like 'label theory', 'social learning theory', 'social disorganization theory' *etc.* Especially social structure theories of crime are of great interest to socialist criminologists because like Cuba, in some socialist countries "[c]ausation is viewed in terms of institutional failure rather than societal faults" (Salas, 1974: 8).

Interestingly socialist criminologists exclude the 'social conflict theory' of Marxists like Bonger, Turk, Quinney *etc.* while discussing the aetiology of crime because the socialist way of life should have eliminated the conflict that is criticized in capitalist

societies. But conflict theoreticians' theories can be taken as the preconditions or initial stages of socialist criminology as argued by: "the abolition of capitalism and the redistribution of wealth and power would restore a favourable environment and eliminate crime followed almost entirely as a matter of political logic" (Lilly, 2006: 152).

Thus, Socialism, as studied by the Marxist Theory of crime, sees the class conflict, in other words a badly designed society which is based on conflicting classes of uneven power and wealth, as the foundational reasons of crime. Some of the criminologists prefer to put the names of the founding fathers of socialism explicitly at the heart of criminology. According to Buchholz (1974:8) for instance, "Socialist criminology sees the Marxist—Leninist concept of the causes of crime as its principal scientific foundation". The second part of the duality, arguably, may change to Maoism or Castroism in other socialist countries but the Marxist component, of which the main aim is to find out the crimogenic conditions of social reality, would be constant as indicated by Buchholz et al. (1974: 2),

[t]he development of the causal theory concept of socialist criminology as a methodological tool led to clarity about the fact that the central task in studying the causes of crime is the discovery of the statistical laws which operate or operate in part, between the material and spiritual sets of conditions of social reality and certain criminal phenomena.

Very explicitly, socialists announce that the fundamental theory of criminology should be socially founded. For instance, Streit (1968: 3) enumerates "basic beliefs" of 'them' as follows: "1- Criminality is a social and historical phenomenon. 2- Criminality is a phenomenon alien to the nature of socialism". Streit (1968) also describes socialist criminology as a 'diversified' system and "a specific system of differentiated social phenomena" which is purely deterministic because it "must be seen and investigated as, among other things, reflections of definite determinants" claims Streit (1968: 3).

Among these social causes, Soviet criminology for instance examined "changing role of sexes, population movement, the economic policies of the NEP, agricultural collectivisation and the destruction caused by the revolution and the Civil War" specifically in the 1920s (Shelley, 1979: 393). This is why socialist criminologists, such as Fedoseyev (1970: 9), blame the remaining debris of capitalism in their society

for the causes of crime. Theoretically, there should be no crime in a classless society because the cause of crime, private property and material imbalance, has been removed from the society.

Evidencing this, Salas (1979: 8) gives 'characteristic' examples from the Cuban media:

[a] door which was not properly closed allowed the theft of clothing, electrical appliances and other articles... The negligence of the administrator or the employees of this unit allowed the criminal act to take place. This act is an attack against the right of the workers and the families in the neighbourhood to acquire consumer goods as a result of their work”.

Label Theory can be noteworthy among social theories here. Indeed, the above example of theft is published in a paper, titled 'Labelling Deviant Behaviour', by Schur (1974). According to the label theory, crimes are nothing more than 'bad' labels attached to the socially powerless by the socially powerful and before they are defined there is no objective basis for the morality. According to Bonger, for instance, crime fell into the category of immoral actions and definitions of morality are varied. This view also holds that there would be no crime in power-balanced-societies because labellers would be incapable of attaching 'bad' labels to their peers, because this idea "assumes that there is no universal consensus concerning moral values or what is or is not deviant" (Salas, 1979: 2). Besides, in a society of no religion, there would be no religious or moral reasons for condemning others in a power-balanced society as well.

As many believe, Socialism is idealistic. In Cuba for instance, Salas (1979: v) argues that: "[t]he means adopted for social control and the instillment of the new "socialist morality" are at the crux of the ideology adopted in the quest for the "New Man." This idealism can be observed easily in Socialist criminology as well. For instance, there have been studies of the aetiology of crime in diverse disciplines like biology, psychology, philosophy, education, medicine *etc.* (Buchholz, 1974: 20; Shelley 1979a, 621) in Germany, Soviet Russia and other Soviet countries but these were either abandoned completely in a very short time (*e.g.* in Soviet Russia after only two decades) or have been studied in relation to the society only (*e.g.* in East Germany in the 1970s), leaving Marxist (social) aetiological research on crime as the sole valid theory of crime. In some Socialist countries (*e.g.* Soviet Russia) scholars were criticized by the state and some of them, like Gertsenzon, agreed with it by saying that

“Marxism provided the only appropriate view of the etiology of crime” (Shelley, 1979a: 620).

3.3.4. Islam and Conceptualising Crime

Some scholars like Scalek (2002) consider criminology to be “a ‘modern’ discipline that has often bypassed the issue of religion”. Vold *et al.* (1998), however, unlike others, group criminological theories under one of the following categories: ‘spiritual’, ‘natural’, ‘classical’ and ‘positivist’, which recognises religious knowledge as a source of epistemology.

Islamic criminology theory is not a spiritual theory, although the first impression may suggest so. Many religious frames of reference in relation to crime hold a spiritual perspective but there are great disparities between different religions too. For instance, Christianity holds such a viewpoint and sees among the causes of crimes the role of bad spirits, the devil and witches (Newman, 1978: 97; Ericson, 1966; Barnes and Teeters, 1945; Teeters, 1955).

Hagan (2010) uses the term ‘demonological theory’ to refer to the supernatural explanations of crime which “dominated thinking from early history well into the eighteenth century” but the perspective of Islam is completely different from any such thinking.

To give an example,

Spiritual explanations of crime appeared in the New World in the Puritan colony on Massachusetts Bay. During the first sixty years of its existence this colony experienced three serious "crime waves" thought to be caused by the devil. The most serious of these “crime waves” occurred in 1792, when the community was thought to have been invaded by a large number of witches” (Vold, et al., 1998: 5)

In Islam however, bad spirits and the devil have no significant effect on individuals (*Qur’an*, 4: 76³¹). Islam’s understanding of crime is similar to classical, rational definitions because free-will plays an important role in Islam. There are even some schools of thought in *Sunni* Islam like the *Mutazilah* School which accepts free will as the sole agent of all kinds of acts and behaviours in the world. Although the *Mutazilah* School can be considered as an extremist one, mainstream *Sunni* schools have not

³¹ “Surely the plotting of *Ash-Shaytan* has (always) been weak.” Translated by Dr. Ghali

denied the role of free will. Mainstream *Sunni* Muslim scholars state that everything (including the criminal event) has been created by *Allah* but after the inclinations, the free-will of people. *Shia* Islam is also very rationalist in its belief system. In sum, the Islamic belief system holds predominantly a rationalist belief system.

It is observed that in Muslim countries, crime rates are low. For instance, Iran, the most inmate populated Muslim country, had 333 prisoners per 100,000 population in 2011, listed as the 24th most populous, while Saudi Arabia is listed 86th with 160 prisoner per 100,000, Malaysia as 104th with 138 inmates per 100,000 and Sudan as 197th with only 45 inmates per 100,000. Mean values of these rankings are below the means of the other cases we compare.

Low figures may probably be due to frequently encouraged and enforced morality by the state institutions and laws. Actually this is not the case in some secular Muslim countries, at least the enforcement is not practiced by official institutions, as in Turkey, but informal discouragement does exist in the society and the crime rates are still considerably low, as indicated by the statistical evidences.

3.3.4.1. Fundamental methods

Islamic moral economy (IME) is “a modern definition of divinely ordered rules and principles related to economic and financial activities, instruments, contracts and choices” (Asutay, 2010a: 35) which developed mainly in the last quarter of the 20th century. The first Islamic bank (IB) was established in 1975 and took the ‘commercial form’ as opposed to the ‘social banking’ example of Mit Ghamr in Egypt in the 1960s (Asutay, 2013). Since then, many Islamic financial institutions and products have been developed. At the heart of Islamic law are “[t]he concepts of ‘adalah’ or ‘justice’ and ‘haqq’ or ‘right’ (Asutay, 2013: 57) which emerge basically from the Holy book *Qur’an* and the teachings of Mohammad, or *hadith*.

Islamic law prohibits *riba* and *gharar*. *Riba* is from the Arabic root ‘r-b-w’ which means growing, increasing, rising, swelling (Saeed, 1999: 20). Every kind of interest, even exchanging regular wheat for a fine one, is considered to be *riba* in Islam (Abu Muslim, 2014). *Gharar* on the other hand is the risk or cheating (*tadlis*), fraud (*ghubn*). It is “uncertainty regarding future events and qualities of goods” (Al-Gamal, 2006: 35).

This law is usually denoted by the term *shari'ah* or the path, the correct path. The aims of *Shari'ah* (*maqasid al Shari'ah*) or Islamic way, including law, are, as explained by *al-Ghazzali* (Chapra, 2008: 4):

to promote the well-being of the people, which lies in safeguarding their faith (din), their self (nafs), their intellect ('aql), their prosperity (nasl), and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable.

Thus, the aim of law including criminal law is to uphold human well-being as defined by the *al-Ghazzalian* interpretation of *Shari'ah*.

Methodologically, Islam conceptualises the individual as a “socio-tropic individual”, “for whom not only individualism but social concern is a prerequisite” (Asutay, 2007: 12). Muslims are “socially concerned, God-conscious individuals” who ((Asutay, 2007: 12):

- (i) in seeking their interests are concerned with the social good;
- (ii) conduct economic activity in a rational way in accordance with Islamic constraints regarding the individual and social environment and the hereafter; and
- (iii) in trying to maximise their utility seek to maximise social welfare as well by taking into account the hereafter.

These social and afterlife concerns of Muslims can be seen in the everyday mechanisms of the market as well. “Market exchange is the main feature of economic operation in the Islamic system; however, this system is filtered through an Islamic process that produces a socially concerned environmentally friendly system” (Asutay, 2007: 12). Thus, social and spiritual accountability (through the hereafter) aims to shape individual behavioural norms.

In this regard, we may argue that Muslims appreciate the social and monetary dimensions of the world as suggested by the socialist and capitalist systems, however in addition to their concerns, Islamic thought seems to be adding the third dimension to the equation: the effects of the hereafter or spiritual accountability with the aim of achieving *ihsan* (beneficence) and *adalah* or social justice, which is considered to be an essential element of Islamic thought. As Asutay (2009: 12) suggests, then, in a

three dimensional calculation, an ordinary Muslim is “trying to maximise his/her utility [and] seek to maximise social welfare as well by taking into account the hereafter”. Asutay (2007: 12) also explicitly favours the use of “multi-dimensional utility theory”.

However, in the globalized world, the theoretical principles of Islam are not entirely and adequately followed by Muslims (Arif, 1989), which makes the additional dimensions of the multi-dimensional utility function weaker. Muslims allocate their resources in a rational way and this rationality includes the hereafter as well as the material world. However, “to be a Muslim is a necessary but not a sufficient condition to be a *tab’ay*” (Arif 1989: 91). In order to be *tab’ay* sufficiently, Muslims should “operationalize Islamic principles in every aspect of their life” (Arif, 1989: 91).

The ontological source being the divine knowledge and articulation of such divine knowledge through spiritual accountability via the hereafter distinguishes Islam from the other systems. Positivism for instance becomes obsolete in Islam despite the fact that the universe is predestined because the majority of Sunni Muslims (Scalek, 2002: 6) believe that God did not set the clockwork universe intact, from His interventions such as revelations, miracles, and answers to prayers. However, individual and group behaviours are predictable with great accuracy if *alims* or scholars acquire the deep knowledge of Allah and of His universe (positive sciences) together.

Unlike both Socialism and Capitalism though, Islam does not apply a dialectic method. Its methods may be named as cumulative, additive, evolutionary or expansionary because it is very rarely that famous *alims* reject each other’s ideas and even if they do so, they do it not on crucial points or the foundational aspects: they try to build up one, complete, agreed-upon theory instead of having many contradicting theories.

In terms of conceptualising and articulating crime, in Islam, there are three kinds of crime and criminality: crimes against Allah, against people and against individuals themselves (Qur’an, 39: 53³²). Breaching the rights of others is punishable by both Allah (in both worlds) and by the state. The state cannot intervene in the rights of

³² “Say: O my servants! who have acted extravagantly against their own souls, do not despair of the mercy of Allah; surely Allah forgives the faults altogether; surely He is the Forgiving the Merciful.” Translated by Shakir.

Allah or their forgiveness for that matter and does not regulate that area but educates people. The aetiology of all of these crimes is the same because criminality can be rephrased as a 'breach of rights' in Islam, either of Allah, of people or of self. And being free from crimes against Allah is not enough for salvation (Qur'an, 5: 9³³).

One can argue that there are three main causations that are tied to three different types of individuals in an Islamic society, which are enumerated in the very beginning of the Qur'an: (i) nonbelievers, (ii) nonbelievers who deny their position or (iii) believers. For the first category of nonbeliever, either in an Islamic society or of a standalone society, Islam does not disagree with the modern criminological theories. For instance, huge discrepancies between the rich and poor in a class based society may have aetiological effects on criminality. Islam does not disagree with this idea. Nor does it disagree with the idea that individuals learn deviant behaviours from each other in corrupt social groups. The second category, namely, nonbelievers who deny their positions, are unpredictable (Qur'an, 4: 143³⁴) in the society in terms of their criminological behaviours but obviously criminal against Allah. For the last category which includes believers, one may argue that the main reason of criminality is the distance of the individuals from the 'faith' or '*iman*' because Islam holds that the more one gets closer to Allah, prays to Him, obeys His books and His prophets, the harder it is for one to go astray and commit crime.

It should be noted that these categories are not predetermined and not statically continuous though. Nonbelievers can be believers in the course of time and believers can be nonbelievers. Nobody can be sure of their status anytime in their life and thus states cannot be sure about their citizens as well and thus must act as if everybody is a pious Muslim (Qur'an, 2: 78³⁵).

The sources of law and hence knowledge in Islam are the Qur'an, the tradition and sayings of the Prophet, *qiyas* or comparison and *ijma* or consensus. While as suggested by the ontological sources Islam is not positivist, the legal tradition of Islam or *fiqh* is quite positivist, because it evolves by regulating contemporary disputes by

³³ "Allah has promised the ones who have believed and done deeds of righteousness (that) they will have **forgiveness** and a magnificent reward." Translated by Dr. Ghali, (emphasis added).

³⁴ "Wavering between that (and this), (belonging) neither to these nor to those; and whomsoever Allah causes to err, you shall not find a way for him." Translated by Shakir

³⁵ "And among them are illiterates (who) do not know the Book except (only) fancies, and decidedly they do (nothing) except surmise." Translated by Dr. Ghali

extending verdicts from the earlier texts and/or legal decisions. This methodology, however, does not care whether or not the verdicts produced or new Islamic legal rules prevent future disputes or cause further problems in another course of everyday life of the society. The spiritual dimension and aims of the society like '*falah*' or salvation, '*insan-i kamil*' or the complete human being and '*maslahah*' or public good (Asutay, 2010a) especially, most of the time are overlooked by *fuqaha* or the religious scholars.

Islamic knowledge is constructed around the concept of *tawhed*, which, semantically, means oneness; it implies that everything in the universe should be understood within the creation and power of God. Islam, therefore, refuses every kind of secondary power, including the devil's power like *ditheists*, *bitheists*, *dualists* suggest against the one and only God, or Allah. Islamic teaching suggests that Allah is the sole owner and practiser of power apart from the ones who, by His permission, exercise limited power. According to Obaid and Ahmed (1971: 1) "the salient features of Muslim political thinking that distinguish it from the political thinking of the Western philosophers are the Sovereignty of God, Law above the State, emphasis upon the attributes of the head of the State and not the State as ethics and basis of politics".

Theodicy according to Sunni Islam is explained by *Abu Haanifah* (1900) as follows: *Allah*, despite His pure beauty, created (and/or creates) 'moral evil' after the dispositions of people towards it but He does not desire evil to happen. He creates it despite His hate because behaviours themselves are not evil³⁶ and this is a must in the world of the test, the test of fate, that is, if there is no evil everybody must go to *jannah* (heaven) with their fates untested.

Similarly, 'natural evils' like floods, hurricanes and earthquakes are not evil in Islam because dying enables souls to enter the true, eternal world. Finally, evil is relatively defined and dependent on the good. Evil is not itself created but comes into existence by the disappearance of good.

In Islamic teaching, the individual is considered to be the *khalifah* or the vicegerent of Allah on earth; and this *khalifah* position in Islam is also unique. In addition, the

³⁶ For example, inserting a sharp knife into the neck of somebody, is not an evil act if the agent is a surgeon, a soldier in a just war or a butcher when killing an animal for feeding people.

society is expected to be run by a *khalifah*, or the leader, who has to make the same calculations as the ordinary Muslim does and he/she has many responsibilities. They do not run for elections, elections are supposed to be initiated by the society and the *khalifah*, before his/her important decisions, has to consult the *ummah* (the society) and obey their common idea. There are many important terminologies to understand Islam as a system such as *adalah*, *ikhsan*, *fardh* etc. but we refer to these when necessary.

3.3.4.2. Position in relation to material world

Islamic societies are not positivist, determinist, materialist but they appreciate the partial correctness of the concepts these terms refer to. For instance, Islam requires her members to obey the worldly natural laws that are laid down by God and they believe that the material world is mortal and that the universe will one day be annihilated.

In terms of materials in the framework of materialism, Islam recognizes private property and allows its followers to be rich and thus to be poor. But it also orders the rich to take care of the poor by means of *zakah* (or compulsory alms giving), *infakh* (social welfare contributions) and *qard al hassan* or lending with no expected repayment, and the poor to work hard to achieve enough money to live in dignity. A hadith or saying of the Prophet, for instance, suggests that being a healthy, prosperous person rather than being weak and poor should be preferred in Islam (Abu Davud, 64 (Supporting the Family)³⁷: 269; *Tirmizi*, *Da'avat* 68, (3477); *İbnu Mace*, *Dua*, 2 (3831)³⁸; *Ebu Davud*, *Salat* 145, (850); *Tirmizi*, *Salat* 211, (284); *İbnu Mace*, *Salat* 23, (898)³⁹).

3.3.4.3. Position in relation to individual

There is an implicit notion of situational causality and arguably individuality of different deviant behaviours in Islam (Qur'an, 2: 2 – 2: 8). Individuals' free wills are so valued that victims for instance are given the right of allowing or pardoning some of the most important punishments such as capital punishment after killing. Indeed

³⁷ “The best alms is that which you give when you are rich, and you should start first to support your dependants”

³⁸ That Mohammad (pbuh) prays for richness

³⁹ That Mohammad (pbuh) teaches his daughter to pray for richness

forgiving in such situations by the relatives of the victims “is considered to be the best course of action” (Qur’an, 42: 40) in Islam. These facts should imply that there is a great deal of emphasis on individuality in Islamic criminology.

Islamic normative knowledge essentialises free will as fundamental. People, in a sense, cause the divine creation of acts and universal circumstances of the behaviours by using their free will. Especially in recent times young Muslims act as ‘micro-*mujtahids*’ or interpreters and easily switch between different *religious interpretations* (Yilmaz, 2004).

Islamic theology suggests that people are created as innocent from birth, but are given the ability to choose between the deepest of the deep evil or the highest of the high good (Qur’an, 95: 1-8). They choose between these two by using their free will (*juz al iradah*). The role of free will is very significant in Islam and it should be because justly deserving heaven or hell cannot be explained properly otherwise. In Islam, it is believed that free will (*juz al iradah*), self, ego, endurance, patience and some other qualities of the individuals are constantly tested during their lifetime.

In Islam, the accountability of individuals is higher compared to other religious systems (Kimball & Teaching Company, 2008). For instance in many forms of Christianity, Christians go to Heaven when they die, even if they commit crimes against others and/or against God. Similarly, in Judaism, Jews go to Heaven with other believers but their status will be higher (Kimball & Teaching Company, 2008). Muslims, on the other hand, believe that they will go to Hell if their evils weigh higher than their goods even if they believed in God as Muslims. There are some sayings of the Prophet (*ahadith*) informing us that the people of *iman* (belief) will be transferred to Heaven after suffering enough in Hell but the existence of *iman* is not statically defined in Islam and it is a fear in many Muslims to lose it before they die.

Apart from these beliefs, the belief in an afterlife with detailed (Kimball & Teaching Company, 2008) processes applies pressure on Muslims. For instance, Muslims believe that all their sins will be showed to all humanity, including their beloved ones, in the hereafter and that before the judgement day, they will suffer in their graves if they had many sins, crimes in the world. Fear and love of God is another reason of crime discouragement in Islam because some Muslims seek to achieve the ‘*reza*’

(consent) of Allah, meaning that he/she, by living a pious life, is loved by Allah. These and similar future frames of shame, and suffering, thus disturb Muslims and arguably restrains them from committing more crime.

These various reasons for refraining from crime also show the multidimensional nature of the rational decision making process of the *homo islamicus* (Asutay, 2010).

In terms of idealism, Islam can be considered to be in between Capitalism and Socialism because Socialism is very active in changing its human element, evident from history, and Capitalism on the other hand is very reluctant to impose any kind of control, regulation, any kind of authority on the society. Famous capitalists even suggested “[t]hat government is best which governs least⁴⁰” (Thoreau, 1993).

3.3.4.4. Position in relation to society

There are mainly two distinct understandings of Islam among Muslims. The first one encompasses all the religions that are ordered by God (Allah), including the religions of Adam, Noah, Abraham, Moses, Jesus and Muhammad and of many more known and unknown, sent by God. In this sense Islam is the religion beginning with Adam and ending with Muhammad. The second understanding or the second scope of Islam is the one that excludes earlier messengers, earlier books and history. This narrower understanding can be denoted by the seldom used term ‘Mohammedanism’. In this sense, Islam is restricted to one book, one messenger and a history since the 700s. Nevertheless both of these understandings indeed refer to the same thing but emphasise greater or narrower scopes of the religion which may be important for legal ramifications.

Crime definitions slightly differ between these two understandings of Islam (Kimbal & Teaching Company, 2008); for instance, some scholars (e.g. Karaman, 2008) believe that people believing the earlier messengers in a Muslim society have a different and more lenient legal set of rules. This distinction brings about interesting implications about the position of Islam in relation to society. Islam, although very slightly, changes its set of rules according to the characteristics of societies, nations,

⁴⁰ Usually, incorrectly attributed to either Thomas Jefferson or Thomas Paine.

racess (Qur'an, 4: 160⁴¹). This should imply that biological and social causes of crime that have been studied for more than a century now by Western criminologists should not be alien to Islamic criminology.

In Islam, it is considered that societies have their own unique characteristics. This basically means that the rules of the social conduct and the mechanisms of society are not generalizable to all. Societies should be analysed separately and crime fighting should be done by taking the differences into consideration. Even inside the same country, this diversity is acknowledged in Islam by multi-jurisdictions based on faith (of *i.e.* Jewish and Christian Law) under the same legal framework.

Individual salvation is almost not possible in Islam. "For instance, individuals are urged to spend of their wealth and substance on: (i) family and relatives, (ii) orphans, (iii) the poor, (iv) the travelling homeless, (v) the needy, (vi) freeing of the enslaved. Such acts define a Muslim's responsibility to develop a social conscience and to share individual and communal resources with the less privileged." (Nanji, 2000: 106).

Responsibility of the society extends to criminal behaviour as well. For instance in *fiqh*, the circumstances of crimes are taken into consideration. If a starving person steals or steals to feed his/her starving family, his/her punishment is either removed or lessened. This reflects the moral dimensions of the legal system in Islam.

In Muslim societies, crime is not talked about much either because veiling others' bad deeds is strongly encouraged and searching for other people's crimes is discouraged in Islam. Acceptance of the convict back into society should be easier as well because sins and crimes are not extraordinary in Islam and almost all sins are forgivable by Allah after a sincere apology (Qur'an, 39: 53⁴²).

3.3.4.5. Position in relation to financial crimes

The main difference in Islamic business is the elimination of interest. Qur'an has very clear explanations of the ban on interest and on several industries dealing with

⁴¹ So, for the injustice (on the part) of (the ones) who have Judaized, We have prohibited them good things that were lawful to them, and for their barring from the way of Allah many (people),

⁴² "Say, (This is addressed to the Prophet) "O My bondmen who have been extravagant against themselves, (i.e., who have committed sins) do not feel despondent of the mercy of Allah! Surely Allah forgives guilty (deeds) all together; surely He, Ever He, is The Ever-Forgiving, The Ever-Merciful." Translated by Dr. Ghali.

alcohol, pork, pornography, gambling and several other products and services. Along with these bans, financial crimes such as hoarding, speculation, manipulation, tax evasion, monopoly and other similar positions such as duopoly, cartel *etc.* are all defined as crimes under Islamic law, *fiqh*. Every kind of deceiving, thus fraud, *gharar* (not providing the necessary information at the time of the trade in the form of speculation) are also forbidden in Islam.

As for the taxes, Islam has a different system of tax collecting. The word '*kharaj*' in the verses 23:72, 18:94, 2:267 refers to 'tax' and a majority of Islamic scholars support this idea (Kallek, 2004: 8). It is mandatory to pay tax. *Zakah* is also considered as another form of tax but according to a tradition which is formed after Othman, the third Right Guided *Khalif*, the *zakah* from the accumulated currency is left to the individual to decide although it is included under the tax books of the scholars after him (Kalek, 2004: 13) in addition to the state tax.

In simple terms, Islam calls for an open market with many competitors working in cooperation who can bring the unprohibited products and services to the market with no restrictions and buy from the market with no harm or disadvantage. Any kind of accumulation or withdrawal of money or product or service from the market with the aim of profiting more in the future is banned in Islam. In this sense, Islam is fairly sensitive about unnatural attempts at affecting the market dynamics.

3.3.4.6. Seeking a consensus/standard for criminological discourse of Islamic societies

Since crime is not spectacular in Islam, we may argue that Muslim criminology would accept a certain degree of criminality in financial sectors of Muslim countries. This view is not acceptable from the point of view of a truly socialist country but is acceptable with even higher expectations in capitalist countries because of its function (Durkheim, 1965) or because the higher degree of modernity of the society requires this.

This view of Islam makes routine activities theory operable in Muslim countries and in the financial context as well. Indeed, from the point of view of Islam, routine activities theory is even more operable because *fiqh* reasons that the owner of a given

property has to keep it in secure places otherwise the punishment is lessened. This gives some arguments of the theory, namely the capable guardians and unavailability of suitable targets, a legal recognition.

These arguments may suggest a lower financial crime rate in Islam because the “[c]reation of human centric economy” (Asutay, 2007) is the central aim of Islamic economics, and Islamic finance specifically aims to be “the operational tool of Islamic economics” (Asutay, 2007: 172). In other words, the Islamic system suggests an embedded financial system, which is embedded in the real economy. Nevertheless, Islamic finance literature is claiming a convergence with conventional financial systems (Asutay, 2011a).

In Islamic societies, individuals have distinct motivational stimuli as well. Many of the additional stimuli like ‘God’s will’, ‘reminders of his presence’, ‘assurance of paradise’, ‘respect within society’, ‘genuine obedience’, ‘achieving higher heavenly rank’ (Asutay, 2010) work as a preventive cause against crime and thus should decrease the number of motivated offenders. “[I]n sum, the origins of motivation in Islamic teaching are attributed to ‘fear’, ‘transaction- reward’ and ‘love-the highest level of motivation’”.

In Islam deviant activity is always discouraged⁴³ but people are not deprived of the ability to commit crimes so long as they are not seen as a threat to the survival of the society. For instance, we see *Abu Hanifah*, father of *fiqh*, going to the prison and helping his drunken neighbour to be released from the prison and behaving softly against him. This could be taken as the awareness of Islam about the existence of deviant behaviour in society (Abu Hanifah, 1900).

In a similar vein, it can be confidently argued that, somewhat similar to routine activities theory and the Durkheimian view, crime is not something surprising in Islam because “Abu Ayyub Ansari reported that Allah's Messenger (pbuh) said: If you were not to commit sins, Allah would have swept you out of existence and would have replaced you by another people who have committed sin, and then asked forgiveness from Allah, and He would have granted them pardon.”⁴⁴.

⁴³ Hz. Ali says: “become an average person inside the people just like one of them”.

⁴⁴ Muslim, 37: 6621

3.4. CONCLUSION AND LINKAGE

3.4.1. Review

In the realm of criminology, all major alternative paradigms are important because we live in a globalized world, in which “the market and not the nation state is sovereign” (Taylor, 1998: 24). It is becoming harder to make distinctions between the worldviews of default and alternative paradigms of criminology but rational choice theory has had a big impact on all viewpoints and thus is very useful and operational for our study, for exploring the varied effects of different financial systems on financial crimes.

Bentham, being a criminologist and economist at the same time, is an important figure to show the connection between the effects of a utilitarian approach to crime in market economies. Similarly, Marx, Weber and some other sociologists’ study of capitalism and criticism of capitalism (socialism) suggests a bridge between the aetiology of crime and the socio-cultural foundations of economics. As these contexts suggest, Rational Choice Theory is appreciated by Eurocentric criminology as well as socialist and Islamic criminology. Other theories of crime are either inadequate to explain deviant behaviours in financial markets or they are not feasible for a comparative study of this magnitude. Some are even irrelevant, such as biological and genetic theories - as Sutherland proves. If biologically normal and successful people are committing the same crimes bad genes or DNA cannot be responsible for the deviant behaviour.

It should be noted that ‘rational criminal’ is the common denominator of all the three financial systems but the theory explaining rationality has some confusions about the effects of the motivation on the theory and this is why it would be a great contribution to the literature if it were further developed.

In this chapter we explained all major criminological theories, and chose ‘rational choice theory’ as the base theory to roughly circle our theoretical perspective. We explained in detail why the current ‘rational choice theories’ were inadequate for the comparison of various financial systems despite being the most suitable. In addition, we explained why the opportunity is not enough to explain criminality and why the

literature needs a new or a developed theory as a continuum of rational choice theory after illustrating alternative paradigms of criminology.

3.4.2. Conclusion

The researcher, then, has no choice but to form a new grounded theory for a better explanation of the phenomenon of white-collar financial crimes. This is a must if one wants to compare certain financial systems because the researcher has to have certain criteria for the causes of financial crimes to compare. Using the current rational choice theory with its weak motivational arguments does not provide adequate criteria of comparison. It is very likely to reach unsound results with such an attempt. This is why we first attempt to form a better criminology theory that is based on the assumption that human beings are rational beings. Afterwards, in the following chapter, we compare the financial systems based on these criteria.

Before beginning to improve the rational choice theory of criminology we need to give detailed explanations about the methodology we used, along with our qualitative and quantitative methods of data collection and analysis, to reach our grounded theory, and this is explained in the following Chapter.

Chapter 4

FINANCIAL CRIME TRENDS IN COMPARATIVE ECONOMIC SYSTEMS

4.1. INTRODUCTION

After identifying the criminological aspects of the main economic systems and comparing them on a number of criteria through theoretical understanding, this chapter aims to compare the nature, trend and development of financial crimes in these economic systems with the objective of drawing some conclusions therefrom. However, it is not really possible to obtain quantitative data on financial crimes since the 1980s for the cases we study. This is why comparative discursive analysis with qualitative data is used; however, whenever quantitative data were found, they were utilised to substantiate the argument.

In the preceding theoretical literature review chapter, it was established that the best available theory to explain financial crime is the modern Rational Choice Theory or neoclassical school. The modern view of the rational choice perspective conceives financial crimes as a by-product of increasing opportunities.

This chapter aims to respond to this assumption by comparing the rate of opportunity change and the rate of crime change in various economic regimes. There is little doubt that more opportunities increase the likelihood of taking illegal advantage of those opportunities; however, it is not certain whether or not there is a third variable effecting both opportunity and crime simultaneously or even whether the assumption that ‘financial crime follows financial opportunity’ holds everywhere in the first place.

If the assumption fails in some cases or if the existence of a third intervening variable is indicated, then we need to either completely abandon or modify and refine the classical Rational Choice Theory via many methods of theory building.

The following sections, hence, present the trends in financial crimes in the ‘market economy’, ‘socialist economy’ and ‘Islamic oriented Muslim economy’.

4.2. FINANCIAL CRIME TRENDS IN MARKET ORIENTED/CAPITALIST SYSTEM

Both proponents and critics of market society and market financial systems agree that crime figures are very high in the market system. For instance, criminologist Crawford (1998: x) argues that the market society⁴⁵ is “increasingly preoccupied with crime and with criminal justice. Despite increasing affluence in the post-war period, crime has continued to rise — often at an alarming rate”. Burke (2005: 43) also argues that “[g]overnments, essentially, lost patience with the failure of criminologists to solve the apparently never-ending explosion in the crime figures” in industrialised democracies including in the UK. This, for example, led the UK’s public expenditures since the 1980s to be devoted “more to finding and evaluating *pragmatic* solutions to particular offenses” (Burke, 2005: 43; emphasis added).

In a similar vein, Marx and Engels (Marx and Engels, 1845/1975: 248), well-known critics of ‘market society’,⁴⁶ argue that “[e]ven now crimes of passion are becoming fewer and fewer in comparison with calculated crimes, crimes of interest — crimes against *persons* are declining, crimes against *property* are on the increase”.

Similar to Marx and Engels, Bonger thinks that capitalism is a criminogenic society. As reported by Carrabine et al. (2005: 72), Bonger “suggested that major shifts in crime come with the emergence of capitalism”, and Bonger (1996: 72) concluded that the capitalist system “weaken[s] the social feelings, breaks social bonds and makes social life much more egoistic”. And its egoistic culture encourages “insensibility to the ills of others”.

⁴⁵ He is from the Centre for Criminal Justice Studies, University of Leeds.

⁴⁶ We use this term here in order to show its incorrectness. Societies are usually not ‘capitalist’ but ‘market oriented’ because the word ‘capital’ means accumulated money to invest. In order for this word to be a characteristic of a society, the society must possess it at least in a majority but statistics of today show that the best representatives of the capitalist societies, namely the US and the UK, do not accumulate money in large amounts, and thus are not socially capitalist. Indeed the US and UK populations do not even spend the money they own but live on credit with very little savings. This is why it is more appropriate to use the phrase ‘**market society**’ instead of ‘**capitalist society**’.

Nevertheless, we cannot derive a comparative result from these claims. Even if the arguments are comparatively correct, it does not follow from them that the trends in financial crimes match the general crime trends. However, one partially useful method of indirectly reaching some initial conclusions about financial crimes could be the crimes against property.

For the time being we may look at the crime trends of the systems in transition and tie these figures to the financial trends. As Table 4.1 shows, at the time of the Russian transition from socialism to a market economy property crimes were on the rise. Rates of larceny-theft and robbery more than doubled during the ten years between the mid-1980s and mid-1990s.

Table 4.1: Number of Property Crimes in Russia between 1985 and 1996

	Robbery		Larceny - Theft	
	Number	Rate	Number	Rate
1985	42,794	29.9	464,141	324.7
1986	31,441	21.8	380,582	31.441
1987	30,441	21.0	364,511	30.441
1988	43,882	29.9	478,913	372.2
1989	75,220	51.0	754,824	512.1
1990	83,306	56.3	913,076	616.8
1991	101,956	68.8	1,240,636	837.3
1992	164,895	110.0	1,650,852	1,110.2
1993	184,546	127.3	1,579,600	1,065.2
1994	148,546	100.4	1,314,788	888.4
1995	140,597	94.7	1,367,866	888.4
1996	121,356	81.9	1,207,478	814.8

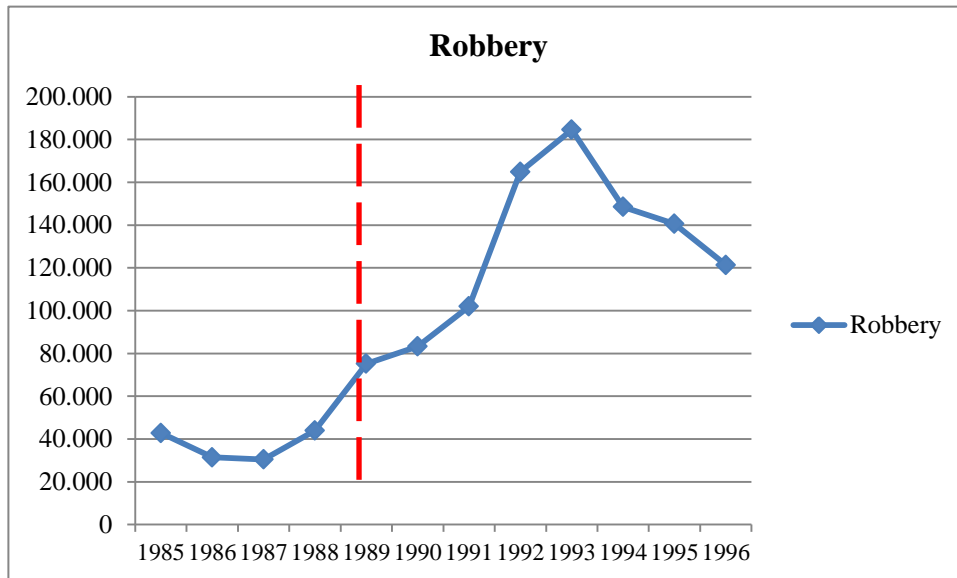
Source: Ruggiero et al. (1998: 235)

Figures 4.1 and 4.2 visualize these statistics. They clearly show the effects of the transition from a socialist system to a market system because of the peak exactly in 1989, the year the socialist USSR collapsed. The peak for robbery begins in 1987 and theft and larceny figures follow the same pattern except for 1987 and 1989. This is indeed a predictable trend because a superpower does not decline immediately; it happens over a duration of some years, and during these years Soviet Russia was in an era of change, which was led by Gorbachev, namely, the Perestroika (rebuilding) and Glasnost (publicity)⁴⁷ periods between 1985-1987, which meant loosening some

⁴⁷ Usually and incorrectly (Hamburg & Teaching Company, 1997) translated as 'openness'.

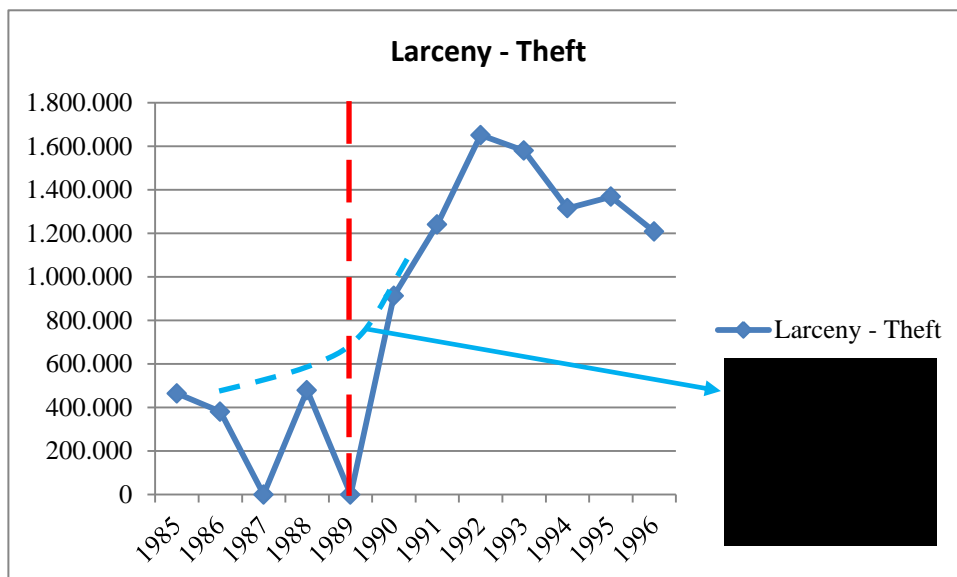
of the strict economic rules of Socialism, such as from a reduction in price fixing from 150,000 products and services down to 15,000 and this time by factory management⁴⁸ instead of the central office (Hamburg & Teaching Company, 1997).

Figure 4.1: Number of Robberies in Russia between 1985 and 1996



Source: Ruggiero et al. (1998: 235)

Figure 4.2: Number of Larceny-Thefts in Russia between 1985 and 1996

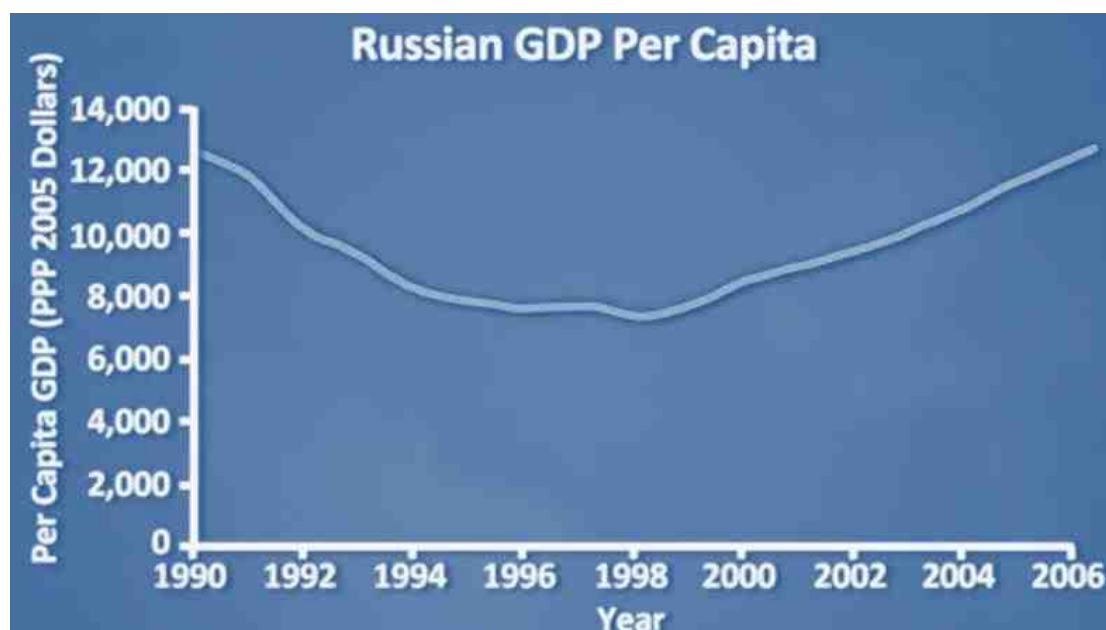


Source: Ruggiero et al. (1998: 235)

⁴⁸ This was not a real change because factory managers were members of the Communist Party just like planning officers. Thus only the place of the plan has changed and mildly loosened but still these policies made the effects of the transformation milder.

The trend of increase in crime against property in Figures 4.1 and 4.2 can be explained by the ‘expanding opportunity and opportunity space’ in the society, because socialism does not allow private property and the wealth in socialism is equally distributed. Nevertheless, the Russian case does not follow the opportunity structure especially at the time of the transition period and the aftermath; see Figure 4.3.

Figure 4.3: Russian GDP Per Capita between 1990 and 2006



Source: Taylor & Teaching Company (2008)

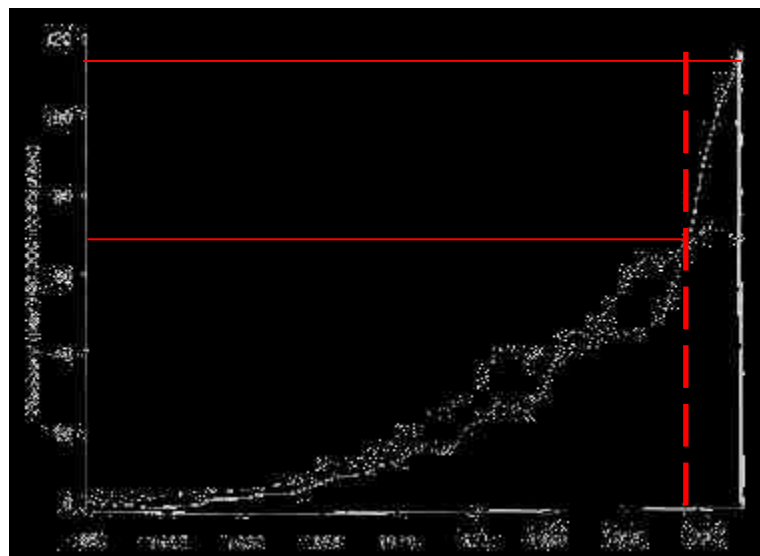
Indeed, if crime follows opportunities and opportunity spaces, Figures 4.2 and 4.1 should be decreasing before 1993, because the per capita GDP of the Soviet economy fell by roughly 50%, worse than the impact of the Great Depression (Taylor & Teaching Company, 2008). From 1991 to 1993, the marriage rate declined by 20% and the birth rate fell by 12%, life expectancy for men fell from 64 years in 1989 to 57 years in 1994 with coronary disease, suicide, alcoholism and murder each playing a role (Taylor & Teaching Company, 2008). Indeed it is hard to argue that the financial opportunities increased during this era, but this can be explained by the lack of defensive institutions at the time, which is in parallel to Rational Choice Theory, but opportunity and opportunity space should be explored in detail. It is not mere abundance of wealth. Indeed entropy could be an alternative variable to explain

financial crime in Russia during the transition, along with the lack of deterrence.

If the figures of crime statistics against property are relatively stable in the market societies or at least increasing but not dramatically so, we may conclude that crimes against property are a result of ‘opportunity’ because of the cases we use to represent market societies which did not have such a dramatic change at the time. Even if these examples of market societies had considerable social changes at the time, it is very unlikely that these changes produced an immediate and profound increase of opportunity spaces, because socialism is a no-private-property system and capitalism is the representative of the systems heavily based on private property and wealth generation.

The following section analyses the same time period for market societies in relation to crime trends. As can be seen in Figure 4.4 and Figure 4.5, crimes against property such as burglary and robbery were on a dramatic rise in the United Kingdom from the 1980s until 1995. Crawford (1998) agrees with the same figures, according to him “[c]urrently, there are more than 5 million recorded crimes per annum in England and Wales. This represents more than a *doubling* of the official crime rate since 1979 and a tenfold increase on the 1950 figure” (emphasis added).

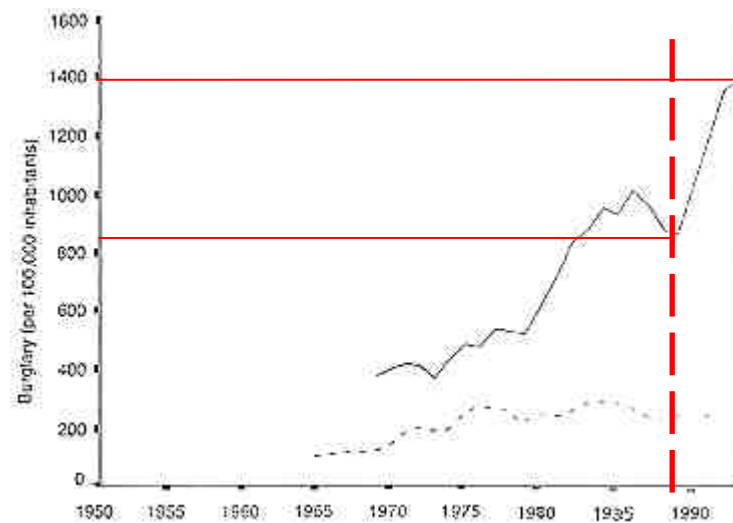
Figure 4.4: Robberies per 100,000 in England and Wales (Continuous Line⁴⁹)



Source: Ruggiero et al. (1998: 379)

⁴⁹ Dashed line stands for Sweden

Figure 4.5: Burglaries in a Dwelling per 100,000 in England and Wales 1970 – 1995 (Continuous Line⁵⁰)

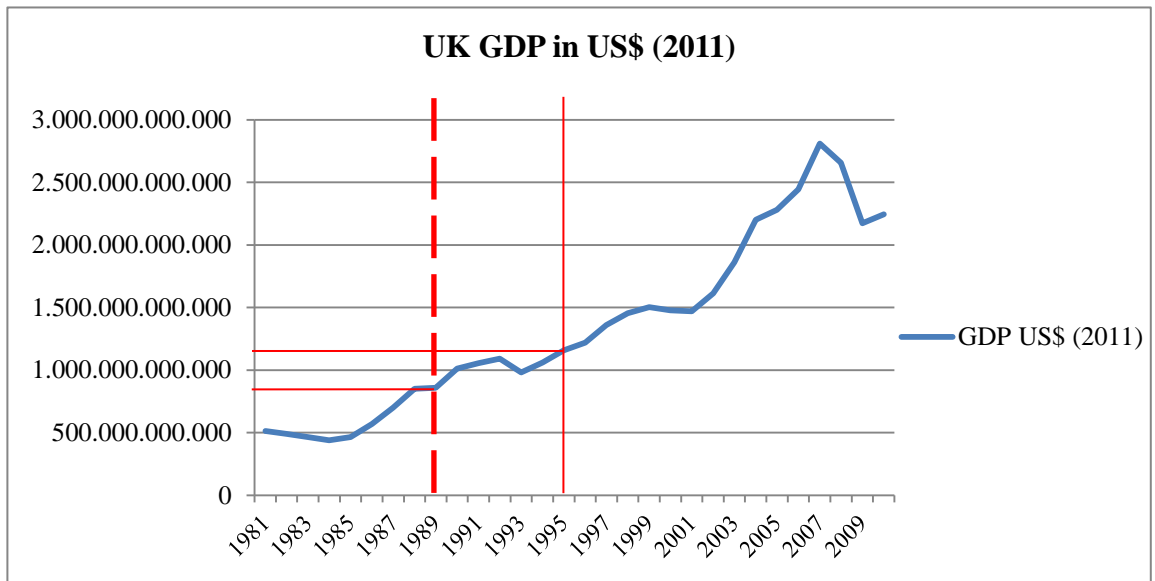


Source: Ruggiero et al. (1998: 380)

The peak observed for Soviet Russia in 1989 is also observable in the crime trends for the UK, as a market system economy. This is surprising because it is hard to assume that the UK experienced such a dramatic increase in crime opportunities in 1989. Thus, a systematic analysis is needed. Do these figures follow the opportunity increase in the same period? Figure 4.6 and Figure 4.7 show the increase in the GDP and stock index in the UK, respectively, to situate the economic performance as an indication of the changing nature of opportunity.

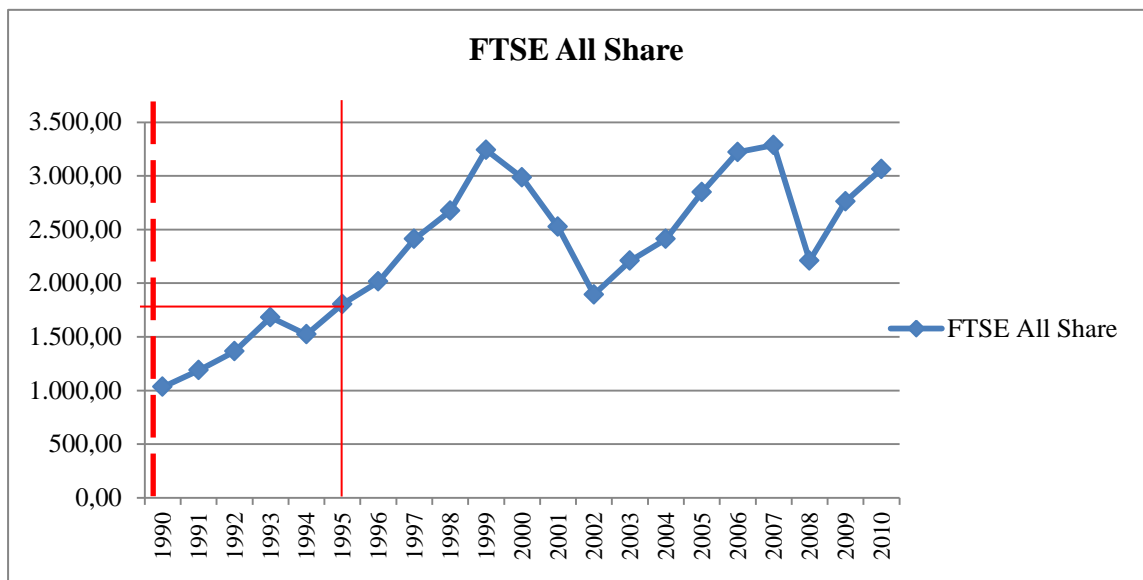
⁵⁰ Dashed line stands for Sweden

Figure 4.6: Trends in the UK GDP (1981-2010)



Source: Office for National Statistics (<http://www.ons.gov.uk/ons/rel/elmr/explaining-economic-statistics/long-term-profile-of-gdp-in-the-uk/sty-long-term-profile-of-gdp.html>)

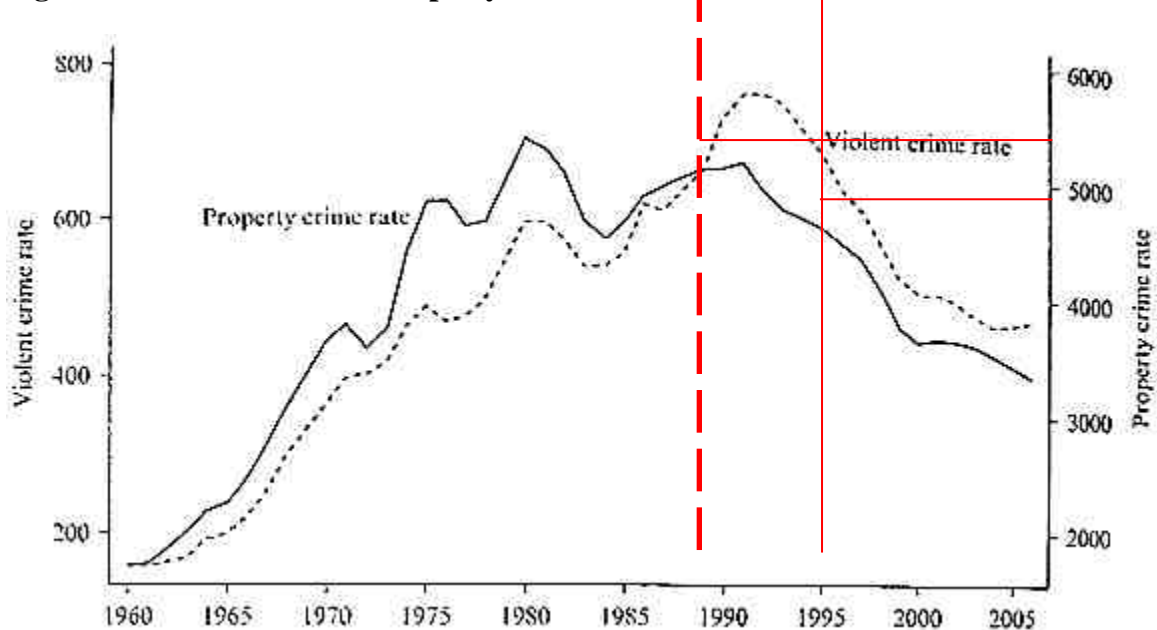
Figure 4.7: UK Stock Market Increase (1989-2010)



Source: World Federation of Exchanges (<http://www.world-exchanges.org/statistics/statistics-definitions>)

The same increasing opportunities are observable for the USA in the same period as well, as can be seen in Figure 4.9 and Figure 4.10. However, the trend of crimes against property, interestingly, does not follow the opportunities, unlike the UK.

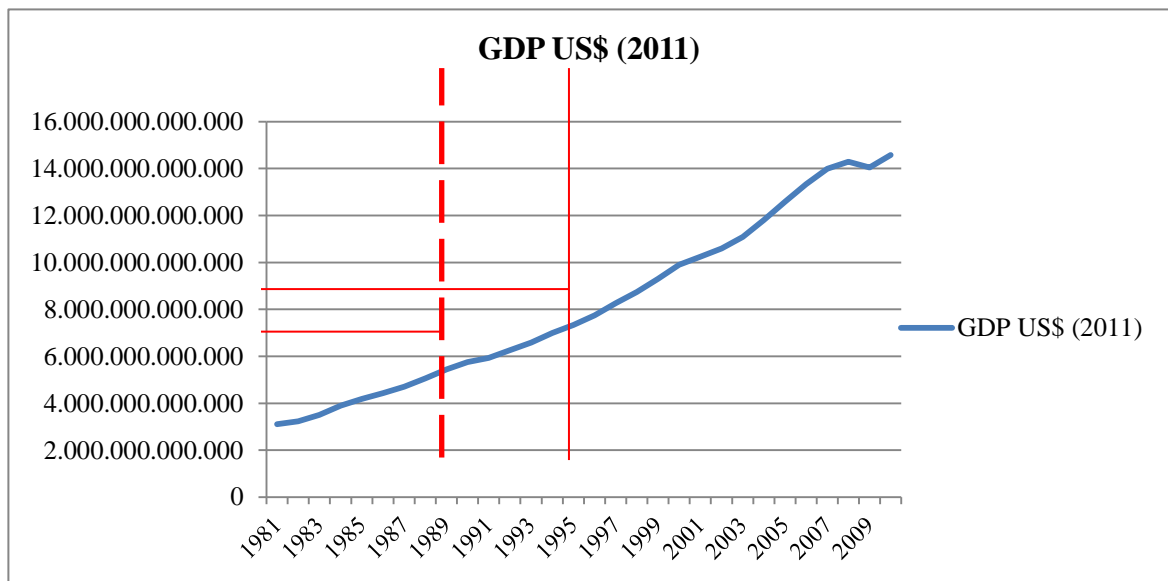
Figure 4.8: US Violent and Property Crime Rate since 1960



Source: FBI, Uniform Crime Reports as prepared by the National Archive of Criminal Justice Data and available online at <http://bjsdata.ojp.usdoj.gov/dataonline/Search/Crime/Crime.cfm>

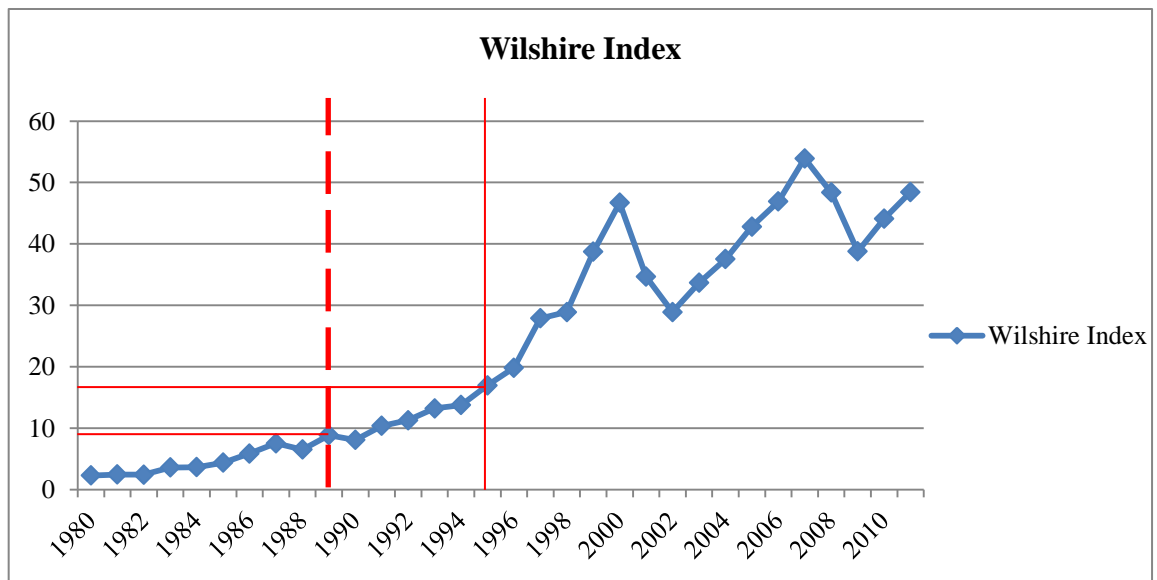
One may argue that the downward move in the crime trends in the US can be attributed to the ‘zero tolerance’ policies, but “zero tolerance policing is often equated with the recent changes to police practices in New York City only” (Marshall, 1999: 3), which was home to 1/35th of the US population in 2000. Even if New York City’s impact on federal policies is greater than other states’ impacts, such practices at least initially are supposed to increase the statistical trend instead of decreasing it, because it basically means being ‘tough’ on crime and applying less leniency. Besides, Bratton became Police Commissioner of New York City in 1994, but the statistics show an already declining figure at the time. Indeed, the demise of the Soviet Union must have had positive effects on US opportunities, as seen from the opportunity figures.

Figure 4.9: US GDP in US\$ (1980 - 2011)



Source: World Bank, 2011 (<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>)

Figure 4.10: US Stock Market Increase (1980 – 2011)



Source: Wilshire.com (<https://web.wilshire.com/Indexes/calculator/>)

It is very clear from the trends that crimes against property in the UK followed the volume of opportunity, measured by GDP and stock index. Nevertheless, the same kinds of crimes did not follow the volume of opportunity, measured by the same variables, in the US. Indeed, crime trends against property are the exact opposite of the opportunity trend in the US between 1989, the fall of the Soviet Empire, and 1995 and so on.

The most relevant criminological theory about financial crimes in the literature, that is Rational Choice Theory, holds that crimes against property and thus financial crimes follow the opportunity structures in a given system. These figures though prove that this claim does not hold for some systems or in some time periods⁵¹. The fact that both the UK and the US are *laissez faire* market systems but have their crime trends completely opposite in the same time period suggests that the claim about the causality between the opportunity and crime trends against property should not be generalized at least through initial descriptive statistics.

Indeed, the generalization across all financial systems is obviously not correct because the Russian crime rates against property follow a very similar trend to the UK in the same time period and then fell down after a while (Figures 4.1 and 4.2) unlike the UK trends. Nevertheless, Russian trends show a very dramatic breaking point from no private property, equal distribution of wealth, completely state controlled economy, to a free market, private property and unequal wealth-distribution economy. It is, indeed, very strange to observe similar rates of change between Russia's and the UK's crime trends against property in the same time period. Therefore, the claim about the causal relation between the opportunity and crime should not be generalized to socialism at least by using initial descriptive analysis.

What is more interesting is the fact that it is not really possible to generalize the same claim even for the market economies either. Since the UK's and the US's crime trends against property are completely opposite, one cannot reason that crime trends follow opportunity in market economies as well.

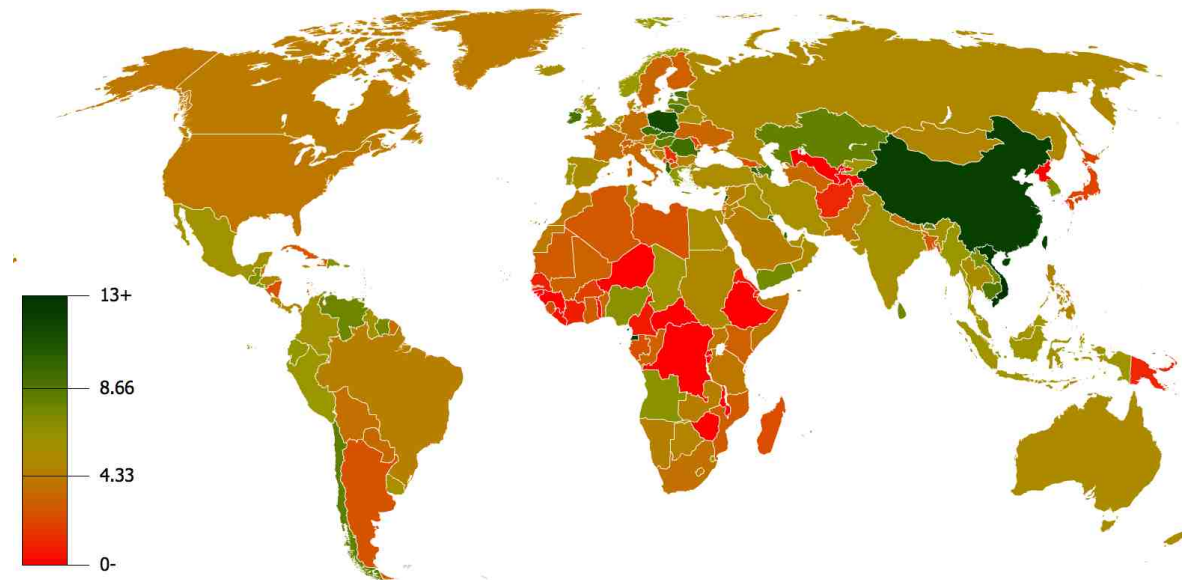
⁵¹ One may argue that the decline in the US's crime figures was due to the "zero tolerance" policy in the US after the 1990s but one should note that this policy was specific to New York City only and not nation-wide. This is why it is not likely to spread its effects to the whole federal UCR crime figures of the FBI.

However, even if the claim of causality between financial opportunity and financial crime is correct, crime rates in different financial systems would still not follow the volume of change in the financial opportunities. They would indeed be considerably different, because, in financial crimes, opportunity cannot be used as a face value, in real terms. For instance, the GDP per capita might fall but because of a diversifying of the economy other opportunities could happen through displacement. For instance, the amount of real or nominal value of opportunity may decrease in a given financial system (*e.g.* total profits of all the corporations in all industries in a given year) but the heterogeneity of this very opportunity (*e.g.* the concentration ratios in certain industries) may increase in terms of increasing the likelihood of experiencing more competition crimes or manipulation crimes.

Map 4.1 shows the comparative positions of countries towards competition related crimes. Thus, the quality of the opportunity is crucial along with the quantity of it. Amount of gross world product (GWP) may be the same in the following year in Map 4.1 but it does not mean that the competitiveness will not be weakened by monopolies in the same period of time, despite the fact that the global opportunity stayed the same. Thus, even 'stable' figures may hide opportunities on smaller scales, smaller dimensions. For instance, according to the CIA (2012) and DeLong (1998), the GWP were very similar in 2000 and 2010, despite the whole decade of economic performances of all of the countries. Rational Choice Theory may take this stable financial picture as a stable financial opportunity and thus opportunity for financial crime; nevertheless, Map 4.2 clearly shows that on a smaller scale, some countries had a different competition crime opportunity compared to their status many decades ago. For instance it is clear that China had consistently more financial opportunity increase for the last three decades but according to Table 4.2 both competitiveness scores and rankings for China get better. This is not what Rational Choice Theory would predict. Indeed, these statistics provide an important realization, that unfair competition is 'crime' in transitional socialist economies and that they improve their position in the fight against unfair competition despite the fact that they constantly have greater financial opportunities. The simple fact that we have transitional economies moving from seeing companies as industries (monopolies) to companies as independent economic entities must convince us that financial crime does not follow financial opportunity so long as these economies reach higher economic

performances, because mere privatization means a decreasing level of monopolies which were once forced by government itself.

Map 4.1: Annualized World GDP Growth Per Capita Between 1980 – 2010



Source: United Nations (<http://unstats.un.org/unsd/snaama/selbasicFast.asp>)

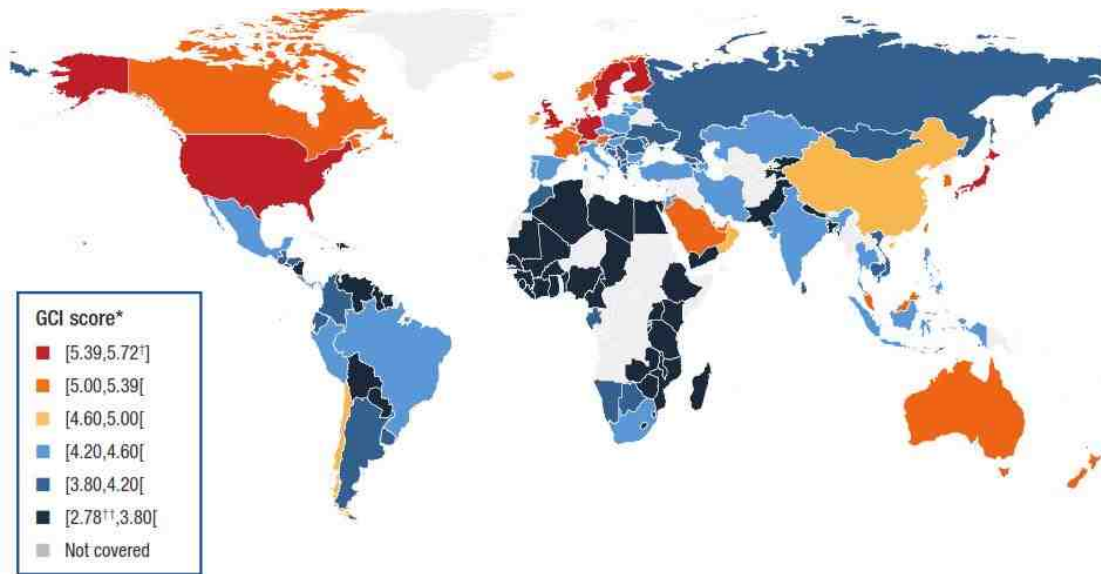
Table 4.2: GCR Index Scores and GDP Per Capita PPP of China Between 2000-2014

Years	China's GCR Scores	China's GCR Ranking in the World	China's GDP Per Capita PPP in \$
2013 – 2014	4.84	29	10,046
2012 – 2013	4.83	29	9,142
2011 – 2012	4.90	26	8,382
2010 – 2011	4.84	27	7,550
2009 – 2010	4.74	29	6,792
2008 – 2009	4.70	30	6,185
2007 – 2008	4,57	34	5,547
2006 – 2007	4,20	35	4,746
2005 – 2006	-	-	4,102
2004 – 2005	4,29	46	3,614
2003 – 2004	-	44	3,217
2002 – 2005	-	-	2,881
2001 - 2002	-	39	2,616
2000 – 2001	-	40	2,378

Source: IMF, World Economic Outlook and World Economic Forum, Global Competitiveness Indices

Thus, opportunity itself is a complex phenomenon. It is not just a rise in positive financial data. In fact, in the modern, fast and risky global financial system, rising financial figures are not the sole representation of opportunity, declining figures are opportunities as well (*e.g.* call options).

Map 4.2: Global Competitiveness Index, 2012- 2013



Source: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

For instance, as Table 4.3 shows, in the UK we should expect more competition crimes in the finance sector, because the opportunity to commit such crimes has grown since 1992 in this sector.

Table 4.3: Composition of the top 15 FTSE 100 companies

Type of company	1992 January	2006 January
Banks	0	6
Manufacturers	10	5
Oil and gas	3	3
Retailers	1	0
Services	1	1

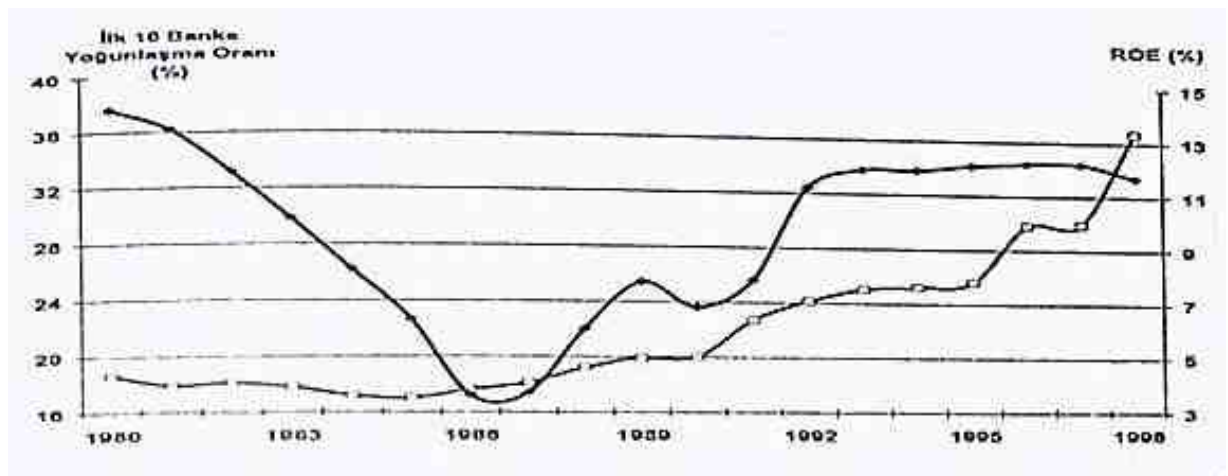
Source: Statistics.gov.uk, 2011, http://www.statistics.gov.uk/articles/economic_trends/ET635Mahajan_Concentration_Ratios_2004.pdf

Looking at the figures for manufacturers in the list of FTSE 100 companies in 1992 in the UK, one may argue that the opportunity space has narrowed down for the manufacturing industry, because five of the biggest firms have dropped off the list and thus the crime rates would slope down following the trend of less opportunity in this industry. Nevertheless, if the reason that the number of companies has halved since 1992 in the manufacturing sector is the increased homogeneity of the market, then it is hard to argue that the opportunity space for committing crime has indeed decreased. We may then deduce that we need far more complex explanations of financial crimes than mere volume of opportunity change.

As Table 4.2 shows, it is not only the overall financial opportunity that concerns us but the density or heterogeneity of the opportunity in any given case that matters for financial crimes, because agents may have a superior position compared to their rivals in certain markets in terms of their ability to commit financial crimes such as forming a monopoly and manipulating. As is obvious, one has to gain a higher potential position before monopolizing or manipulating the market.

As Figure 4.11 and Figure 4.12 show, the heterogeneity in the financial markets in the US was increasing from the 1980s, which casts some doubts on the opportunity increase in the same period. Does it really matter what the volume of opportunity is for the monopoly/monopsony in the monopolized market or for the manipulator?⁵²

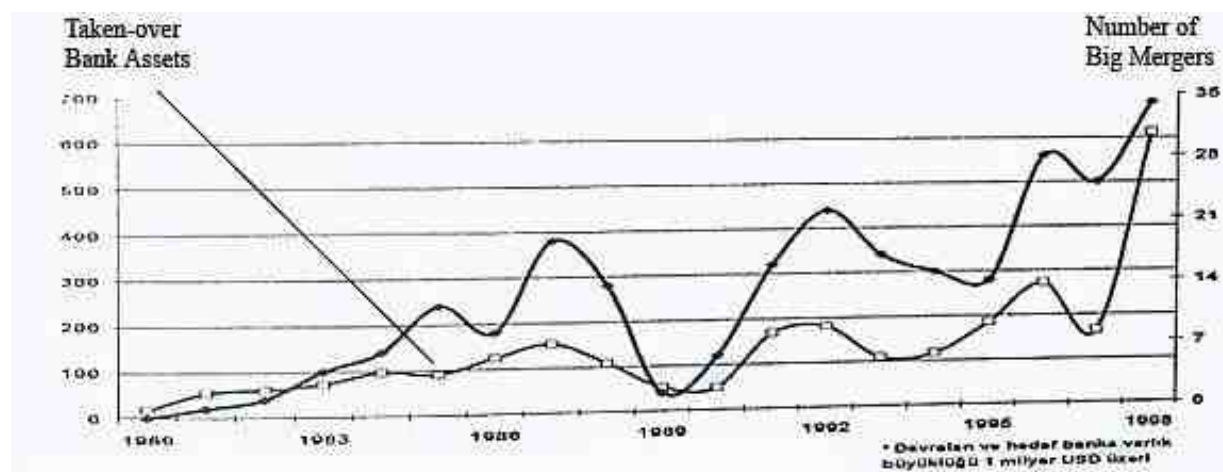
Figure 4.11: Density Proportions of 10 Biggest Bank Concentrations and ROE between 1980 and 1998 in the US



Source: Rhodes (2010: 29-30).

⁵² For instance, Nick Leeson tried to manipulate the whole National Market while it went down.

Figure 4.12: Taken Over Bank Assets and Big Mergers in the US (1980 - 1998)



Source: Rhodes (2010: 19).

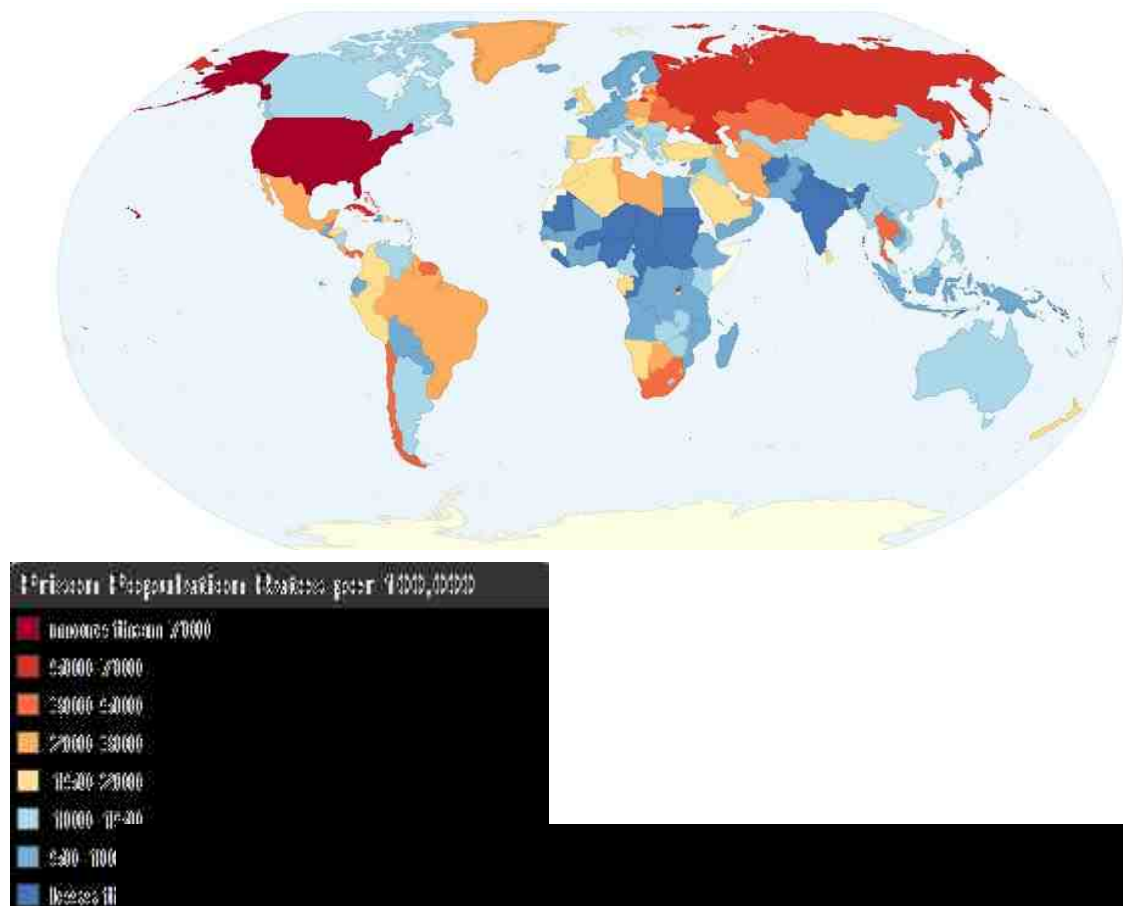
Nevertheless, there are still many criticisms to which the claim that ‘crime follows opportunity’, has to respond. For instance, from the point of view of Rational Choice Theory (everything else being equal), there is still the effect of individual motivation that has not been taken into account (automatically assumed) along with the volume of opportunity in rational choice theories. As explained earlier, many criminologists do not accept the idea that opportunity, solely, creates the motivation. Indeed, this is an everyday observation. Everybody passes down the same street but only burglars break into houses. If it were the opportunity creating its own motivation then opportunities would be taken advantage of by everyone who is aware and there would be no examples of the courtesy of bringing back the lost property, lost wallet, to the owner, no altruistic behaviour in the society. This is only one reason why opportunity is not enough to explain the trends in crime against property, as shown in the US and Russia cases above.

4.3. CRIME TRENDS IN TRANSITIONAL/SOCIALIST SYSTEM

It can be argued that due to the nature of the economy and the financialisation of the economy, there are comparatively fewer opportunities for financial crimes in socialist and Islamic systems. Therefore, we would not expect the same crime trends in socialist countries, from the point of view that financial crime is a by-product of financial opportunity. Table 4.4 clearly depicts the opportunity asymmetry between the group of cases we analyse.

General crime rates are substantially lower in socialist countries (Buchholz, 1974: 8) such as Soviet Russia. Similarly, China⁵³ held the 117th place in the international list of inmates with only 122 person per 100,000 but Cuba's statistics are higher with 297 per 100,000 in 2004 (Walmsley, 2004) as seen in Map 4.3; nevertheless none are lower than the US or present day Russia with her market orientation.

Map 4.3: World Prison Population Rates per 100.000 of the national population in 2009



⁵³ Hong Kong 109th with 133 per 100.000 and Macau 78th with 171 per 100.000

However some scholars claim that crime statistics were artificially lowered by some socialist states like Soviet Russia (Shelley, 1979: 393) and Cuba (Salas, 1979); and also similar claims are made for the United Crime Reports (UCR) of the US (Siegel, 1995) as well and not all deviance related statistics are low in socialist countries. For instance, Cuba is a world leader in divorce and suicide (Salas, 1979: 9) and considerably high in prison inmates (Walmsley, 2004).

Table 4.4: Accumulated Stock of Outward Foreign Direct Investment as Percentage of GDP in 2005 (selected countries)

Country	%
Norway	123
Switzerland	107
Belgium	104
Netherlands	103
Sweden	57
United Kingdom	56
France	41
Canada	35
Germany	35
Italy	17
United States	16
Japan	9
World	24

Source: United Nations, Conference on Trade and Development (UNCTAD) (2007) World Investment Report 2007: Transnational Companies, Extractive Industries and Development. Geneva, UNCTAD

Another important reason for lower crime rates would be the nature of economic and financial opportunity in socialist countries, as people have a very restricted opportunity in socialist countries. Although such a term as ‘lack of affluence’” is harshly rejected by some socialist criminologists, who accuse the critiques of being “intended to brainwash the public of the capitalist countries against socialism” (Buchholz, 1974: 7-8).

Herfindahl Index and the first 5 and first 10 banks concentration for China and Cuba along with Merger & Acquisition activities since the 1980s compared to market

economies and Islamic systems can give a better picture of the comparative applied nature of financial crimes and opportunity spaces. As clearly seen from Tables 4.9 and 4.10 socialist economies have comparatively fewer opportunities compared to a market system. As seen from Table 4.5, among the 500 MNEs in the world, China, as a socialist country, has 20 companies and no other socialist or Islamic economies are represented in the list.

Table 4.5: Share of the World's Top 500 MNEs by Revenues, 2005

United States	170
France	38
United Kingdom	38
Germany	35
Netherlands	14
Italy	10
Spain	9
Sweden	6
Belgium	4
Finland	2
Denmark	2
UK/Netherlands	1
Belgium/Netherlands	1
Ireland	1
Luxemburg	1
Total EU	162
Japan	70
China	20
Canada	14
Switzerland	12
South Korea	12
Australia	8
India	6
Brazil	4
Mexico	5
Russia	5
Taiwan	3
Norway	2
Other Countries (one each)	7
Total	500

Source: Fortune Global 500, 2006

However, there is no country in the world which has an Islamic financial system prevailing as the sole system except for Iran and Sudan; these countries have

Islamised their economies. The rest of the Muslim countries have adopted dual banking systems, having Islamic and conventional financial system running together in the economy. Thus, the majority of the Muslim countries have adopted a market economy and some of them after experiencing socialism and nationalism have also turned to market capitalism. Thus, Islamic finance has been developing mainly within the paradigm and framework of a capitalist economy.

Table 4.5 can be referenced to show the comparatively smaller size of the financial opportunities in Islamic systems, especially in fully Islamized systems such as Iran and Sudan.

4.4. ISLAMIC FINANCE AND ISLAMIC ECONOMY

In recent years, the emergence of Islamic finance has been observed, and it has been expanding beyond the Muslim countries. With about \$US 2 trillion and having operations in over 75 countries (The Banker, 2013), Islamic banking and finance has become an alternative financing system with an emphasis on ethical and religious norms. Such foundational aspects have implications for crime and also financial crises, as its ethical nature substantiated by Islamic law is expected to reduce financial crime and increase resilience towards crisis.

The major players in Islamic finance happen to be our cases: Iran, Saudi Arabia, Malaysia and Turkey. Below, Figure 4.13 represents Iran's stock index since 1999 and the figure clearly shows that Iran has an increasing financial opportunity space; y using the terminology produced by this study in Chapter 7, the 'dynamic', 'immediate' 'financial' opportunity space in Iran gets bigger but the space for Saudi Arabia is in decline since 2005 (see Figure 4.14).

Table 4.6 and Table 4.7 depict the rise of the financial positions of major Islamic Finance actors and their rising regional shares respectively.

Table 4.6: Top 25 Countries by Shari’ah-Compliant Assets

2009			2010			2011			2012		
Rank	Country	Shari’ah-Compliant Assets \$m	Rank	Country	Shari’ah-Compliant Assets \$m	Rank	Country	Shari’ah-Compliant Assets \$m	Rank	Country	Shari’ah-Compliant Assets \$m
1	Iran	293,165.80	1	Iran	314,897.40	1	Iran	387,952.57	1	Iran	465,574.92
2	Saudi Arabia	127,896.10	2	Saudi Arabia	138,238.50	2	Saudi Arabia	150,945.43	2	Malaysia	221,025.52
3	Malaysia	86,288.20	3	Malaysia	102,639.40	3	Malaysia	133,406.38	3	Saudi Arabia	185,223.00
4	UAE	84,036.50	4	UAE	85,622.60	4	UAE	94,126.66	4	UAE	89,309.38
5	Kuwait	67,630.20	5	Kuwait	69,088.80	5	Kuwait	79,647.85	5	Kuwait	78,587.25
6	Bahrain	46,159.40	6	Bahrain	44,858.30	6	Bahrain	78,857.47	6	Bahrain	62,171.53
7	Qatar	27,515.40	7	Qatar	34,676.00	7	Qatar	52,322.38	7	Qatar	45,301.30
8	UK	19,410.50	8	Turkey	22,561.30	8	Turkey	28,015.20	8	Turkey	29,292.86
9	Turkey	17,827.50	9	UK	18,949.00	9	UK	19,041.79	9	UK	18,605.43
10	Bangladesh	7453.3	10	Bangladesh	9,365.50	10	Sudan	12,139.45	10	Indonesia	15,963.97
11	Sudan	7151.1	11	Sudan	9,259.80	11	Bangladesh	11,677.10	11	Bangladesh	12,572.97
12	Egypt	6299.7	12	Egypt	7,227.70	12	Indonesia	10,531.61	12	Sudan	9,825.23
13	Pakistan	5126.1	13	Indonesia	7,222.20	13	Syria	8,690.20	13	Egypt	8,296.32
14	Jordan	4621.6	14	Pakistan	6,203.10	14	Egypt	7,888.22	14	Pakistan	7,328.34
15	Syria	3838.8	15	Syria	5,527.70	15	Switzerland	6,582.48	15	Switzerland	6,551.37

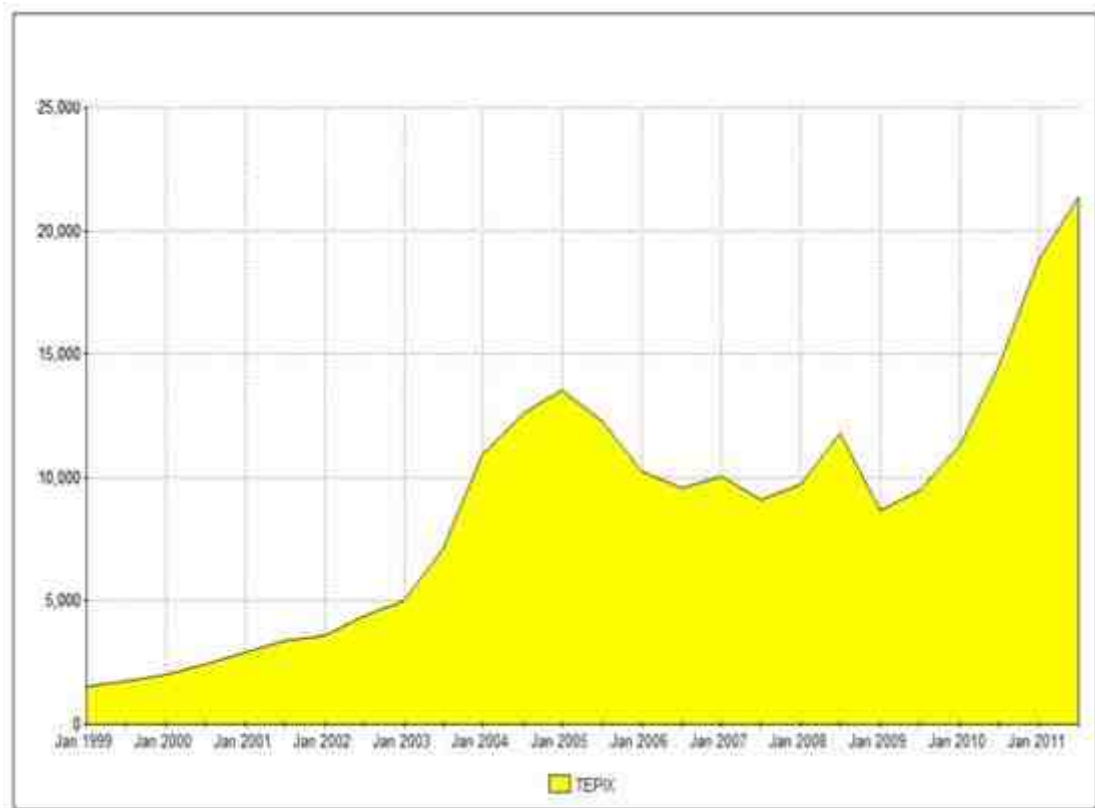
Source: Asutay et al. (2013)

Table 4.7: IBF-Regional and Global Growth Totals (\$ million)

	2006	2007	% Change	2008	% Change	2009	% Change	2010	% Change	2011	% Change
GCC	127,826.60	178,129.60	39.4	262,665.40	47.5	353,237.50	34.5	372,484.20	5.5	434,893.10	16.75
Non-GCC MENA	136,157.60	176,822.20	29.9	248,264	40.4	315,090.50	26.9	337,948.20	7.3	416,382.20	23.21
MENA Total	263,984.2	354,951.70	34.5	510,929.40	43.9	668,328.50	30.8	710,434.00	6.3	851,275.30	19.82
Sub-Saharan Africa	3039.3	4708	54.9	6662.1	41.5	8369.7	25.6	10,765.10	28.6	13,711.10	27.37
Asia	98,709.6	119,346.50	20.9	86,360.30	-27.6	106,797.30	23.7	130,904.10	22.6	166,652.80	27.31
Australia/Europe/America	20,300.20	21,475.70	5.8	35,105.20	63.5	38,654.80	10.1	42,779.50	10.7	53,939.10	26.09
Global Total	386,033.30	500,481.90	29.7	639,076.90	27.7	822,135.10	28.6	894,882.70	8.9	1,086,462.90	21.41
% of MENA total to Global Total	68.4	70.9		79.9		81.3		79.39		78.35	

Source: Asutay et al. (2013)

Figure 4.13: Tehran's TEDPIX All Share Price Index Between 1999 and 2011



Source: Tehran Stock Exchange; Available at <URL: <http://www.iranbourse.com/Default.aspx?tabid=70>>

Figure 4.14: Saudi Arabia Stock Market Index with Trend Between 1994 - 2014



Source: Tradingeconomics.com

Figure 4.15: Malaysia Stock Market (FTSE KLCI) Index Since 1977



Source: Tradingeconomics.com

Table 4.8: Volume of Trading in Khartoum Stock Exchange by Sectors (2003–2009)

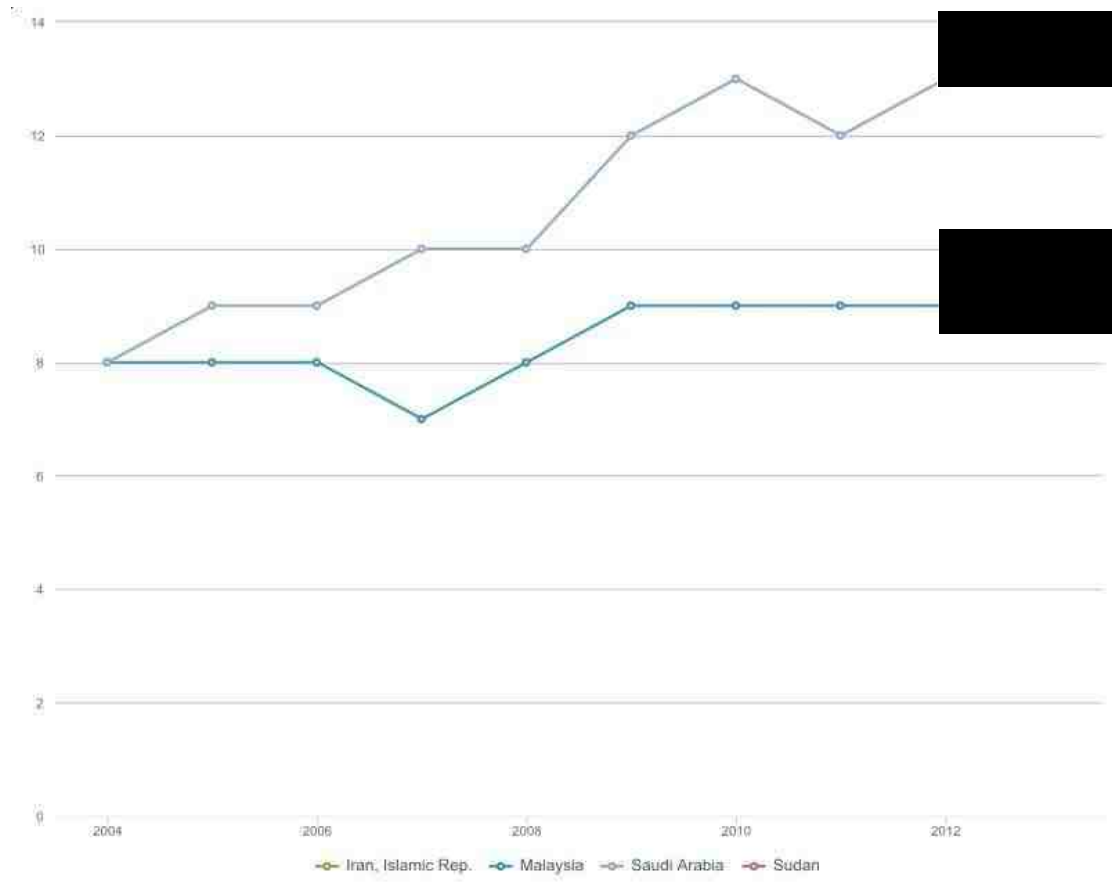
	Volume of Trading (SDG millions)						
	2003	2004	2005	2006	2007	2008	2009
Banks	39.7	7.8	11.1	91.4	139.7	135.8	81.5
Insurance	0.1	0.01	0.0	0.0	1.9	1.8	0.1
Commercial	1.9	39.3	18.3	22.3	22.0	6.2	15.1
Industry	0.01	39	48.2	57.0	4.0	0.8	25.4
Agriculture	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Communication	-	-	-	-	432.2	320.1	122.5
Services	-	-	-	-	0.8	7.6	0.9
Funds	7.4	2.8	47.1	120.2	130.3	123.5	164.8
Certificates	62.7	113.7	194.4	799.9	1068.5	1283.2	1836.3
Others	132.3	245.1	897.7	977.3	0.1	0.04	0.0
Total	244.1	447.7	1216.8	2068.1	1799.6	1879.04	2246.6

Source: Ahmed and Suliman (2011).

Looking at the stock exchange figures of Iran (Figure 4.13), Sudan (Table 4.8), Saudi Arabia (Figure 4.14) and Malaysia (Figure 4.15), it is easy to conclude that the financial opportunity space in Islamic Finance has increased since its emergence.

Data on bank capital to asset ratios of Saudi Arabia and Malaysia are also drawing a similar picture about the financial opportunity trend in Muslim countries. Figure 4.16 represents this data.

Figure 4.16: Bank Capital to Asset Ratios



Source: World Bank Development Indicators

In a similar vein, Table 4.9 shows a similar picture which can be used to show the non-existence of Islamic capital in world financial markets and thus the very small opportunities to commit crime outside national borders of Muslim countries because their share in the FDI flows is less than 4%, indeed the exact number is far below 4%, and the same picture is valid for socialist countries, only less so for China.

Table 4.9: Percentage Shares of Estimated Stock of Accumulated FDI by Country of Origin, 1980 – 2005 (%)

	1980	1990	2000	2005
United Kingdom	15	13	14	12
United States	42	24	20	19
Germany	8	8	8	9
France	5	6	7	8
Netherlands	8	6	5	6
Other Western Europe	9	16	22	17
Japan	4	11	4	4
Rest of the World	9	16	20	25
	100	100	100	100

Source: Based on Dunning (1992) and Nobes and Parker (2008)

Obviously, partially Islamized cases have comparatively better opportunities than fully Islamized systems, namely Iran and Sudan. However, even partially Islamized countries, namely Malaysia and Saudi Arabia, have very few opportunities compared to the countries with a market system. According to some of these researchers, "[c]rime in Saudi Arabia is relatively low when compared to some developed nations, but may be increasing due to higher levels of foreign workers and higher levels of unemployment among Saudi residents." (Wilson, 2008)

Similarly, Quraishi (2005: 22), argues that Muslims are traditionally under-represented in criminal justice statistics and he emphasizes that special attention is required to this under-representation in non-Muslim countries such as the UK: "However, if a minority population has been perceived to have experienced prolonged periods of relative conformity, law-abiding behaviour and stability amidst social circumstances often cited as conducive to deviance, law breaking and instability, then surely this warrants detailed academic attention?"

Ali (1985 in Reichel 1999: 50) found in his comparative research in 1981 between Saudi Arabia and Ohio in the United States that property offences and violent crimes in Saudi Arabia were far lower than in the United States (159 versus 5625.9 in every 100.000). According to Ali (1985: 54), Souryal (1987) and Stark *et al.* (1982) these

extremely low crime rates are the result of “profound internalization of Islamic religious values among Saudi people” or the penetration of religion in general in the communities.

Saudi Arabia’s GDP per capita was US\$1,600 in 1981 and in the US GDP per capita was \$2,300 in the same year. Since the difference in the volume of national financial opportunities is in no way comparable to the national crime rates one can deduce that variables other than opportunity play a determining role in deviance against properties.

In another comparative study, the cultural and moral environmental effects on crime are studied by Groves *et al.* (1987) as well, who used 14 Muslim (excluding Saudi Arabia) and 33 non-Muslim countries and reached the same conclusion as Ali (1985), Souryal (1987) and Stark *et al.* (1982).

Groves *et al.* (1987: 500) found out that fraud and theft rates were ten times lower in Muslim countries, but by using other variables such as GDP per capita they concluded that “it is a high level of economic development that is strongly related to high crime rates”. This point is very popular in financial crimes literature and we somewhat agree with Groves *et al.* (1987) and others who argue that more opportunity brings about more crimes but this point needs clarification because it is difficult to explain murder, rape and other violent crimes by means of increased opportunity⁵⁴. We address this point in our grounded theory chapter and show the correlation between motivational differences between socio-economic systems and increased opportunities.

In addition to this moral and socio-cultural environment, Ali (1985: 54) also claims the effects of legal environment, the “uncompromised implementation of the Islamic penal code”. The effects of the legal environment solely, in isolation from the religious, ethnic and cultural environment, is supported by Souryal (1987) as well because Souryal (1987) showed lower crime rates in Saudi Arabia than in the neighbouring Muslim countries which have effected but not fully adopted Islamic law. Kuwait has been the main isolation factor because it does not fully apply Islamic law and has almost the same ethnic, cultural, religious, geographical environments as

⁵⁴ For instance Shichor (1990: 74) found in his comparative study that “homicide rates were negatively correlated with indicators of modernization” such as public health and communication.

Saudi Arabia; despite these similarities, property crimes were 15 times more in Kuwait compared to Saudi Arabia.

Souryal's (1987) study is more comprehensive and compared Saudi Arabian crime statistics with that of the world average (using UN Surveys between 1970 - 1975). In this study, Souryal (1987) compared property crimes as well and reached similar results. For property crimes, he reached the rate of 1.4 compared to the 908.5 of the world average.

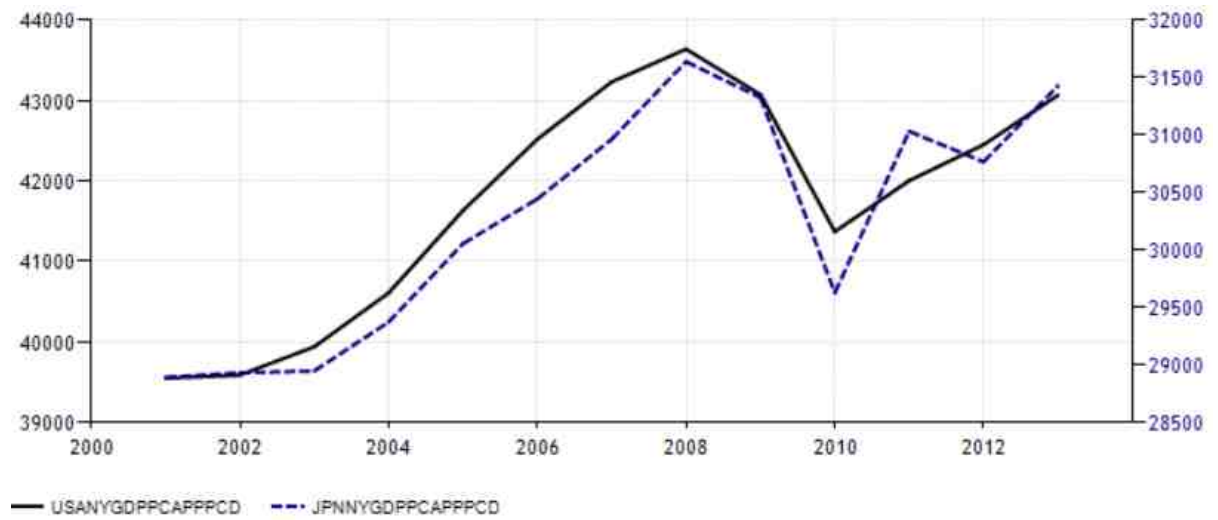
4.5. CRIME TRENDS FROM THE HISTORY of WORLD ECONOMY

There are scholars who claim that historical analysis of crime statistics shows they do not follow the volume of opportunity. According to McDonald (1982) for instance, even for the – said to be – criminal prone layers of the society, eras and areas of revolution like the Industrial Revolution, scored no increase of crime although these were the primary places Durkheim predicted to be “in a state of upheaval and anomie”(Williams, 1997: 345).

There are recent examples from the history of the economy that point to the inconsistent claims of Rational Choice Theory on crimes following opportunity. Japan could be an example. As Figure 4.17 depicts, United States' and Japan's financial positions have been very similar in both trend and volume in the last decade; however, there is a vast discrepancy between their financial positions and their positions on property crimes. Figures 4.18 and 4.19 clearly show this discrepancy in both volume and trend in burglary and theft and motor vehicles theft respectively.

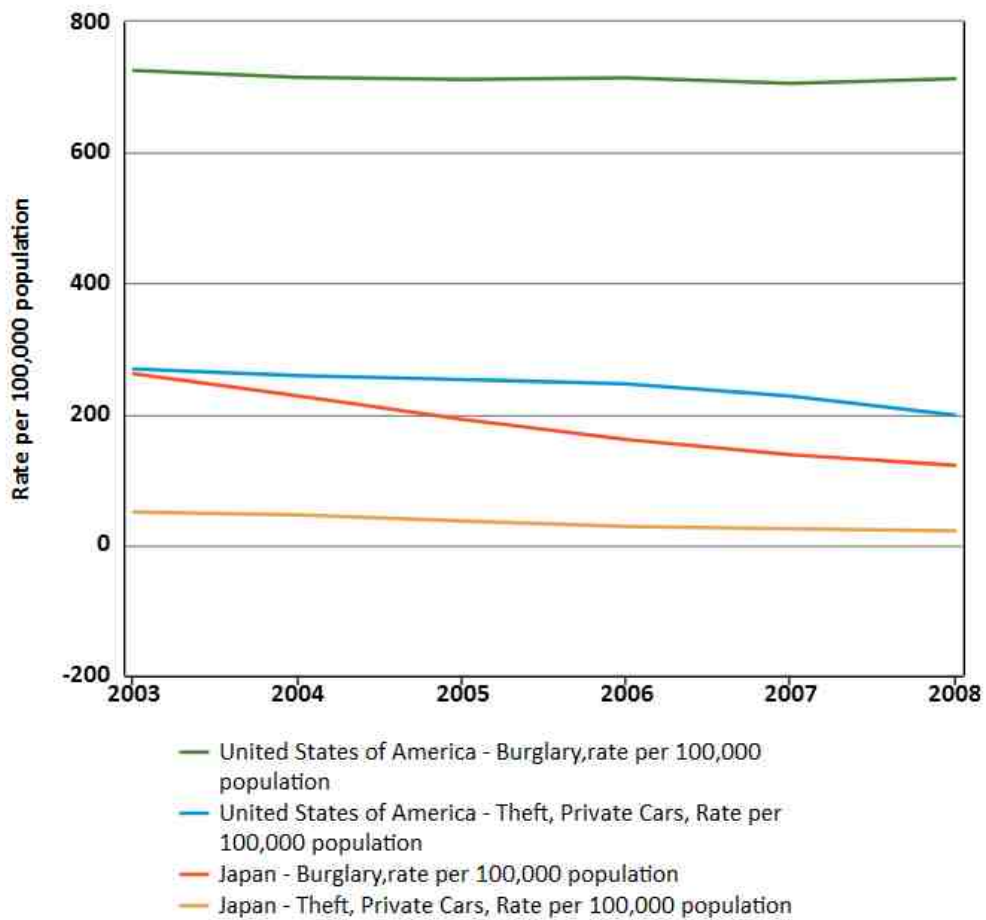
As seen from Figure 4.18 there is a big difference in crime rate between the United States and Japan despite the fact that their indicators of economic and financial opportunity are similar. If crimes follow opportunity we would not expect such a vast difference in property crime rates between these countries.

Figure 4.17: USA and Japan GDP Per Capita in US Dollars Between 2000 - 2013



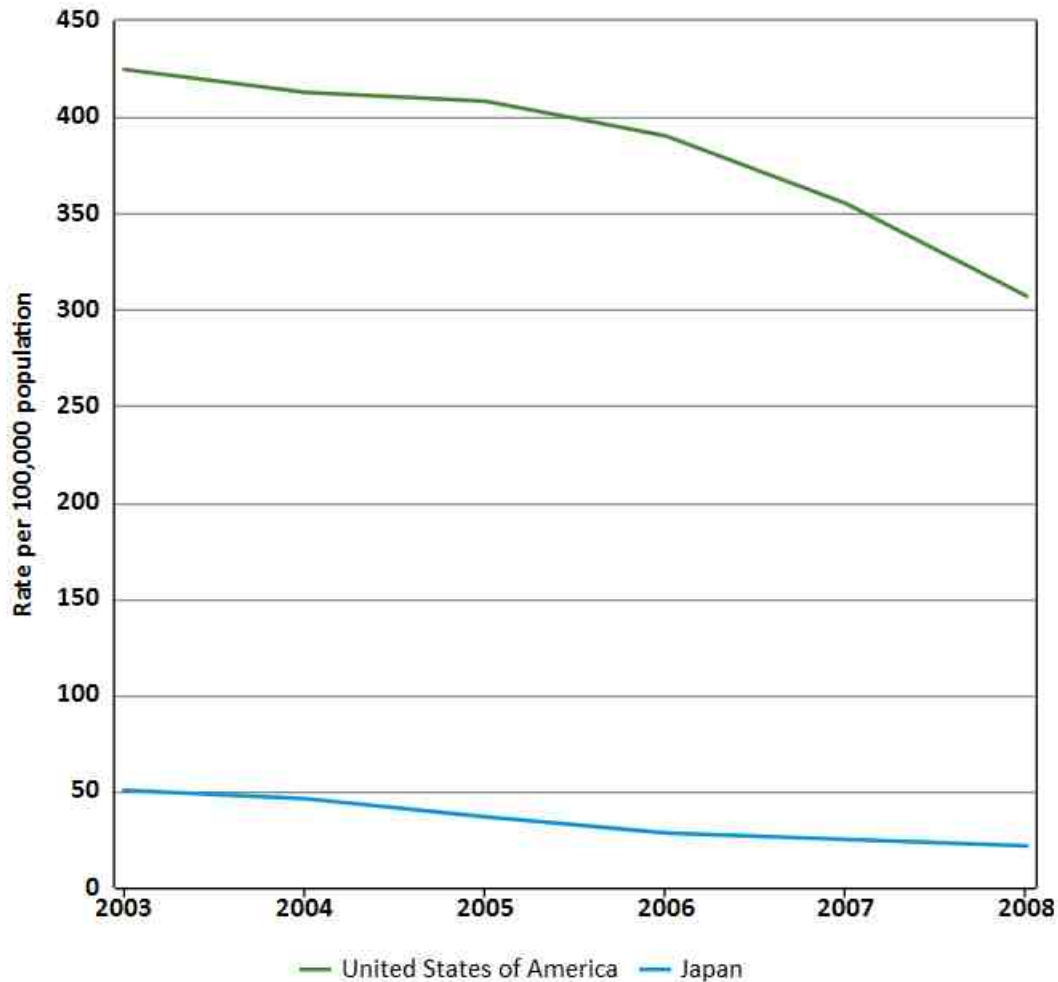
Source: World Bank

Figure 4.18: Burglary and Theft Rate Per 100.000 in USA and Japan Between 2003 - 2008



Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

Figure 4.19: Motor Vehicle Theft Rate Per 100.000 in USA and Japan Between 2003 - 2008



Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

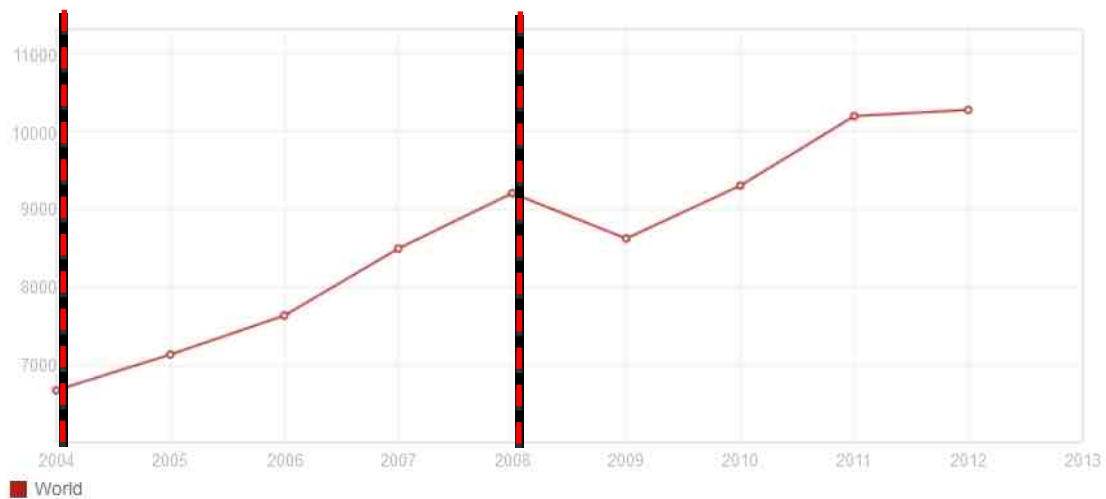
As figure 4.19 depicts, there is not only a huge difference (almost eight fold) in the volume of motor vehicle theft between the United States and Japan but also, the trend is in the opposite direction, compared to the financial opportunity trends as represented by GDP per capita Purchasing Power Parity (PPP). Thus, looking at these data, crime does not seem to follow opportunity.

In fact, comparison of two cases may hide special circumstances even when compared in a longitudinal way, in our case, 5 years. In order to check these figures one may

look at the aggregate data of the whole world. Based on UNODC Burglary, Car Theft and Housebreaking Statistics and the World Bank's financial data we compare the financial opportunity space and crime trend in the last decade in the following Figures 4.20 through 4.24.

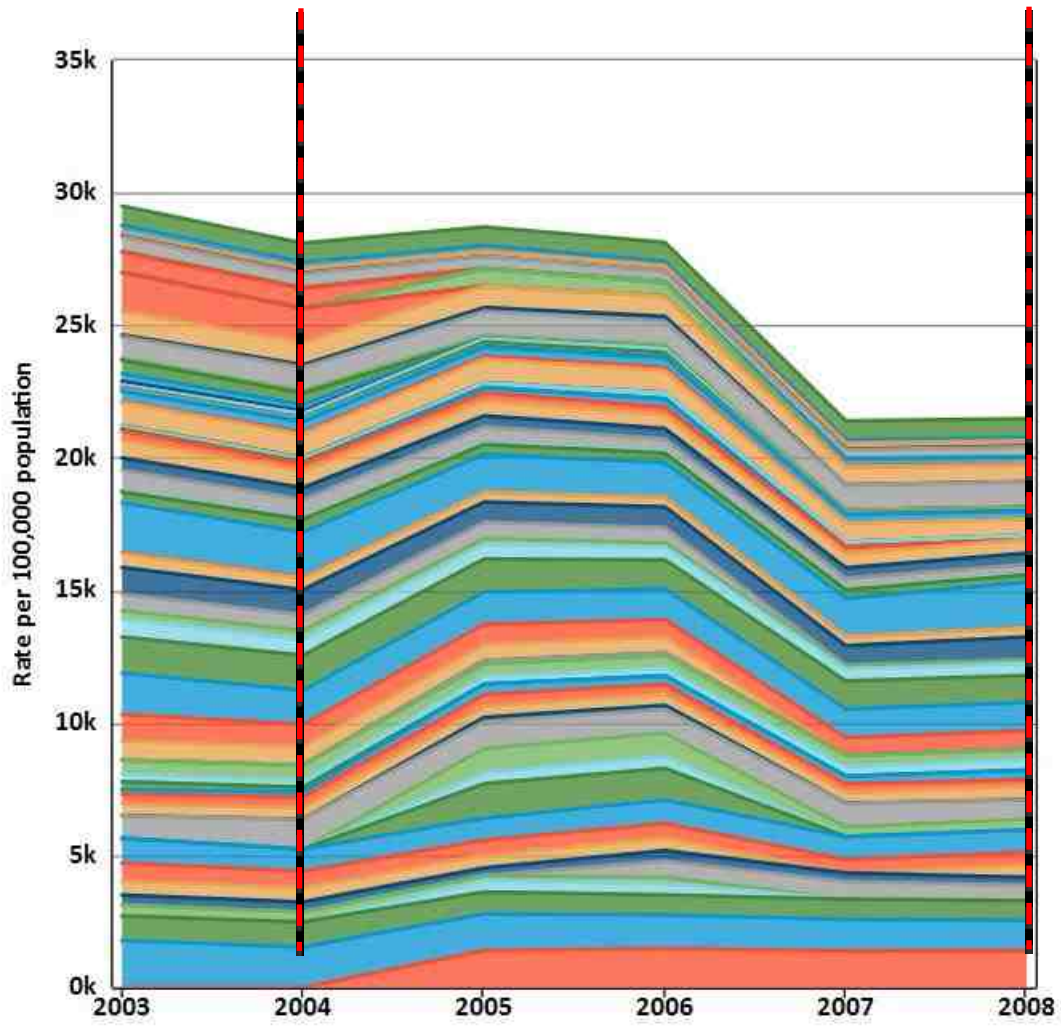
Based on the intersecting data between 2004 and 2008 (four years) the World's GDP per capita is on the increase (see Figure 4.20) but burglary (see Figure 4.21) and motor vehicle theft (see Figure 4.23) are in decline. Again, contrary to the arguments of Rational Choice Theory, trends in theft of private cars (see Figure 4.22) and burglary/housebreaking (see Figure 4.24) are completely different, compared to the financial data in the same period.

Figure 4.20: World GDP Per Capita PPP Between 2000 - 2008



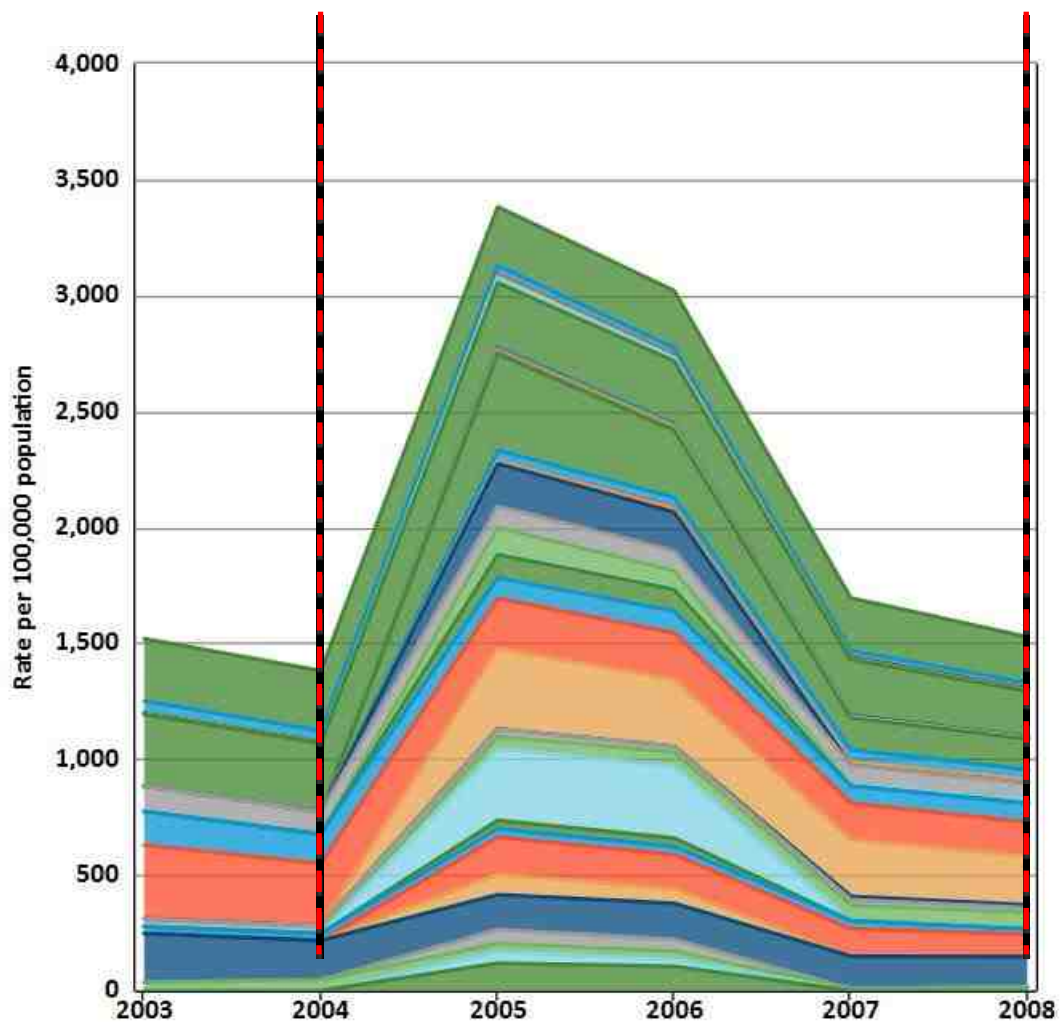
Source: World Bank

Figure 4.21: World Burglary Rate Stacking Chart Per 100.000 Between 2003 - 2008



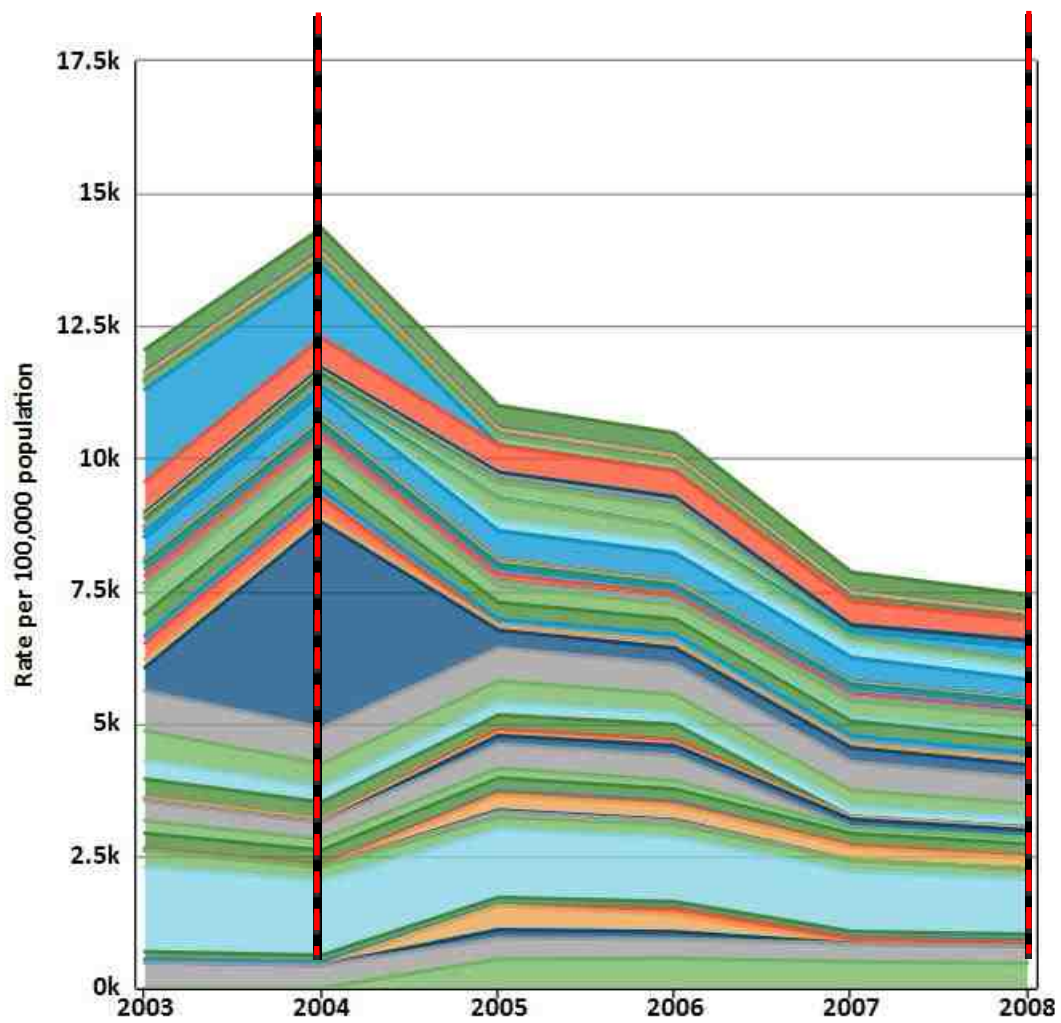
Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

Figure 4.22: World Private Cars Theft Rate Stacking Chart of Per 100.000 Between 2003 - 2008



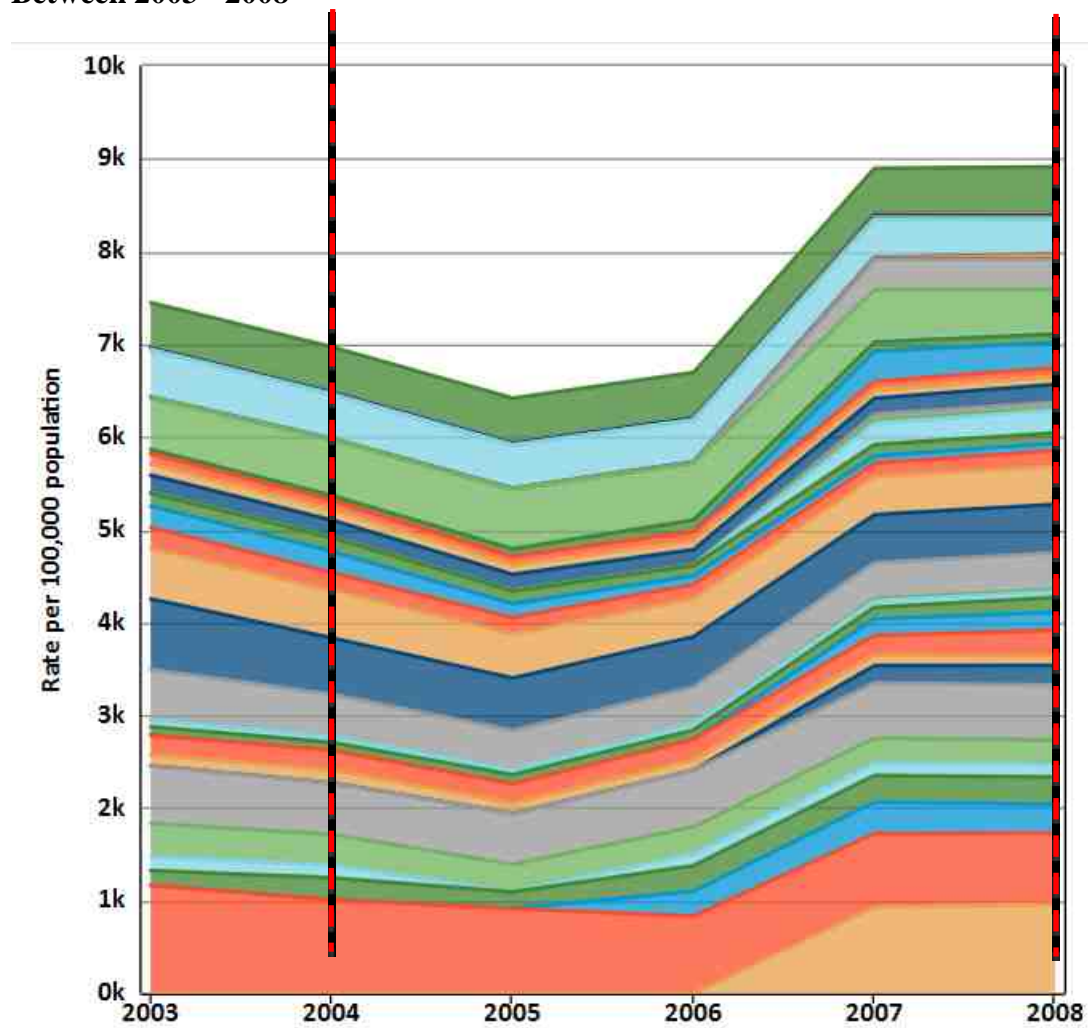
Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

Figure 4.23: World Motor Vehicles Theft Rate Stacking Chart Per 100.000 Between 2003 - 2008



Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

Figure 4.24: World Burglary/Housebreaking Rate Stacking Chart Per 100.000 Between 2003 - 2008



Source: UNODC, International Burglary, Car Theft and Housebreaking Statistics

Consequently, we may confidently argue that financial crime opportunity may not simply be tantamount to positive financial data. Different dimensions, different levels of analysis reveal contrary realities even when the opportunity seems to follow positive financial data.

Table 4.10: Trends in Juvenile Property Crime Penal Code Offenders in Japan (aged 14–19)

	2001	2006	2007	2008	2009	2010
Robbery	1,670	892	757	713	696	565
Larceny	81,260	62,637	58,150	52,557	54,784	52,435
Intellectual offenses	526	1,294	1,142	1,135	1,144	978

Source: Japan National Police Academy (2010)

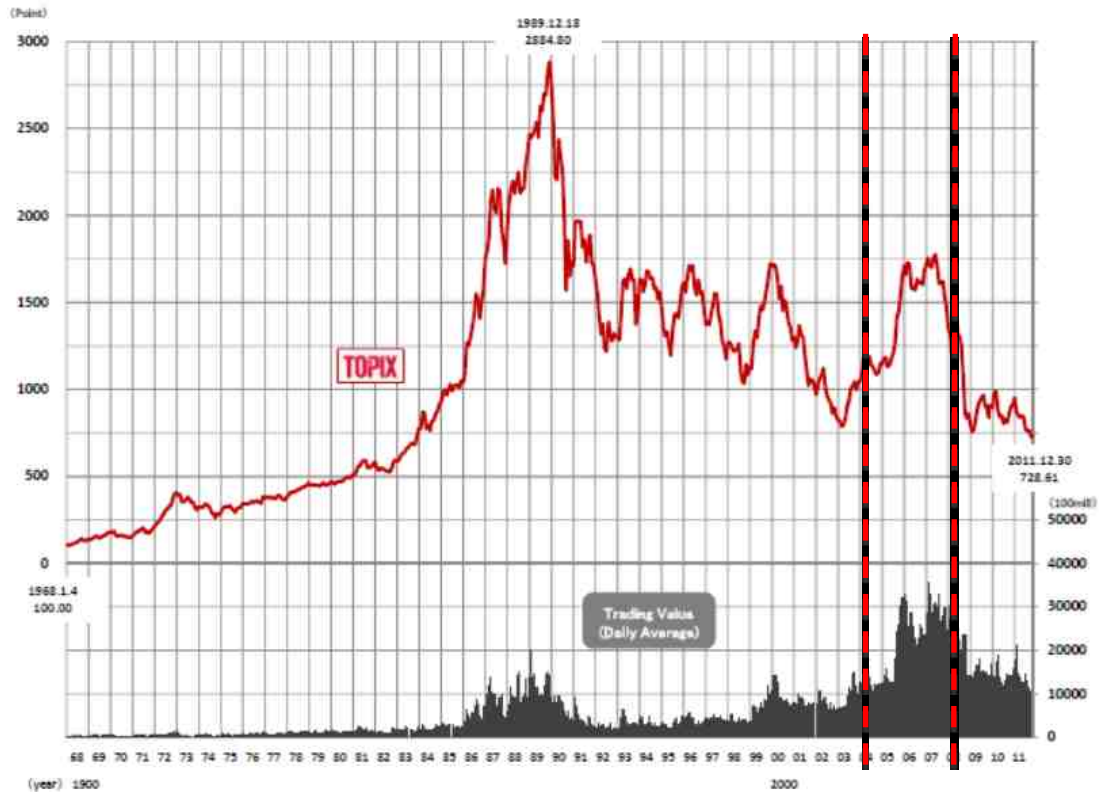
Table 4.11: Trends in Investment Fraud in Japan

	2006	2007	2008	2009	2010
Cases cleared	17	12	22	29	31
Suspects arrested	73	86	117	125	110
Corporations cleared	4	3	4	7	10
Victims	14,429	30,230	64,016	53,698	19,014
Amount in damages	¥43.7 billion	¥80.8 billion	¥158.0 billion	¥165.4 billion	¥18.0 billion

Source: Japan National Police Academy (2010)

Figure 4.17 which depicts Japan’s financial trends in the last decade is consistent with the ‘economic crime’ trends in Japan as seen in Table 4.11. However, this is a simplistic approach to crime and opportunity. When we consider other aspects, other dimensions of the comparison, we do not get the same results. For instance, the same comparison between the financial trends (Figure 4.17) and crime statistics can be made by using juveniles’ ‘economic crimes’ as well. In fact, Table 4.10 gives these statistics for Japan and as the data suggest, the trend of these statistics is completely opposite to the opportunity trends represented by GDP per capita PPP.

One may argue that GDP may not be a correct instrument to represent financial opportunity of economic crimes but both volume and value of the Tokyo Stock Market give the same financial patterns as seen in Figure 4.25.



Source: Tokyo Stock Exchange at <http://www.tse.or.jp/english/market/topix/history/index.html>

Nevertheless none of the indicators are perfect, for obvious reasons, it is possible to find some other financial indicators with different trends but these indicators would have their own shortcomings as well.

The possibility of representing financial opportunity trend in various ways singlehandedly proves that what we mean by ‘opportunity’ requires a careful reconsideration as well because according to the opportunity measure A, crime trends follow the arguments of Rational Choice Theory but opportunity measure B switches the results. Then, does Rational Choice Theory have an ‘ideal’ definition of opportunity for every distinct case? The real meaning of opportunity in criminology in general and financial white collar crime in particular deserves a diligent, scholarly effort. Rational Choice Theory has a rather blunt understanding of opportunity and motivation. This is why opportunity deserves a deeper observation, a scrutiny of its components, its meaning, characteristics and consequences. This is what this study tries to accomplish in Chapter 7.

4.6. CONCLUSION

This chapter made it clear that the claim “financial crime is a result of financial opportunity” made by Rational Choice Theory is an oversimplified, blunt argument. We provided various strong and robust analyses to show that volumes and trends in crimes against property do not follow financial opportunity in many cases. In fact, what is meant by ‘opportunity’ is debatable just like what is meant by ‘crime’ or who are meant by ‘criminals’ (*e.g.* we showed that regular economic crime statistics follow financial opportunity in some cases while they do not follow the same statistics for juveniles).

Consequently, looking at these statistics and studies, we may argue that although financial opportunities appear to be one of the important environmental factors in financial crimes and crimes against property they are not the only factor. Indeed this is predictable from the point of view of Rational Choice Theory which - although lately and loosely - accepts the role of motivation as a separate factor.

Following from these arguments, and statistical inconsistencies and complexities, then, one cannot see crime as a result of opportunity only, nor can one see it as a concept that is completely explainable by the current theoretical arguments of Rational Choice Theory or any other criminological theories for that matter.

Up to this point, all the relevant preparations have been made to begin explaining the new criminology theory built by this research on financial white collar crime and opportunity spaces; this new theory seeks to show how criminals’ decision making is affected by the environment of crime. However, let us first provide information about the scientific methods used by this research and about the data, how it is collected, analysed, synthesized, coded, recoded, linked, formulated and structured as a coherent, consistent, reliable body of knowledge in theoretical form.

In Chapter 5, we give all the methodological details of the theory building process we used before exhibiting the whole theory (Chapter 6), its environment (Chapter 7) and its coding processes (Appendix 1).

Chapter 5

RESEARCH METHODOLOGY

5.1. INTRODUCTION

A very short history of the milestones of this research can be related as follows: In our initial attempt, we looked for significant differences in financial crime disposition among various financial systems by using a number of criteria. However, when we analysed the data, we realized that the criteria suggested by the literature are not appropriate to answer the research question, because of the extreme cases compared. In order to find the appropriate criterion to compare these extreme cases such as socialism and capitalism we decided to build a grounded theory to both solve the problematic issues of comparing extreme cases and to produce a developed version of the best available criminology theory in the literature.

In order to build a theoretical explanation, we used the grounded theory as a methodological framework, which proved to have better internal consistency and an authentic approach, because it now includes criteria that are capable of comparing extreme cases and it recreates financial crime as a dynamic, generalizable, compact, quantitative phenomenon. Finally, by means of the newly produced criterion within the framework of the new grounded theory or model, a new attempt is made in this study to compare the financial crime dispositions, as a propensity to crime, of various financial systems in order to find out the most/least vulnerable system in the comparison. While the end result in the form of comparison is important, the main contribution of this study remains within the development of a grounded theory.

During this process, in a nutshell, we conducted an inductive, embedded case study design research with data source triangulation from purposeful sampling of mostly

qualitative⁵⁵ data in the form of text and discourses to build a grounded theory via comparative cases; for this Eisenhardt (1989) in providing a methodology was particularly important. For the later part of the study, we use the same data and the resultant grounded theory to form comparison criteria in an applied manner, which is collected and formulated under the title of ‘opportunity spaces and defensive spaces’. The following sections, hence, detail the methodological issues of this study.

5.2. RESEARCH METHODOLOGY

Methodology is a way of studying social reality (Strauss and Corbin, 1998: 3) or, more explicitly, “the strategy, plan of action, process, or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes” Crotty (1998: 3).

There are mainly two types of research methodology, namely, ‘quantitative’ and ‘qualitative’ (or ‘positivist’ and ‘interpretivist’). These ways of conducting research are usually - and mistakenly - seen simply as choices for doing research, however their role is far more intricate. As rightfully put by Asutay (2008: 2), methodology is indeed ‘a way of thinking’.

Scientists have more than one way of thinking. These are in fact emerging from the philosophical debates between ‘positivism’ and ‘idealism’. Chronologically, positivism⁵⁶ was the first, distinct research paradigm but as the social sciences evolved more interpretivist⁵⁷ (or phenomenological) paradigms were developed and recognized on the ground that ‘social’ issues are not ‘facts’ and they are produced by various agents interacting.

Positivism is associated with quantitative methods of analysis in an attempt to essentialise the objective nature of ‘reality’, while interpretivism is mainly based on qualitative methods of understanding the social reality through the perceptions and involvements of the actors of a social reality. Colls and Hussey (2009: 73) list paradigms and the methodologies associated with these paradigms as follows:

⁵⁵ This study used many statistics, graphs, tables, figures of numerical data but these numbers are not used in a positivist way, the research is about the real, deeper meaning behind the numbers and not about the exact values of numbers themselves.

⁵⁶ E.g. Comte (1798-1857), Mill (1806-1873), Durkheim (1859-1917).

⁵⁷ E.g. Kant (1724-1804), Dilthey (1833-1911), Rickert (1863-1936), Weber (1864-1920).

- (i) Positivism: Experimental studies, surveys, cross-sectional studies, longitudinal studies;
- (ii) Interpretivism: Hermeneutics, ethnography, participatory inquiry, action research, case study, grounded theory, feminist theory, gender and ethnicity studies;
- (iii) Pragmatism.

Nevertheless, we have to realize that these are only tentative categorizations. All the methodologies may appear under all paradigms but some appear under certain categories more than others.

According to the ‘positivist’ paradigm, “knowledge is derived from ‘positive information’ because every rationally justifiable assertion can be scientifically verified or capable of logical or mathematical proof” (Williman, 2001: 15) and is independent of the researcher or the agents involved (Creswell, 1998). Thus, quantitative research, “embodies a view of social reality as an external, objective reality” (Bryman, 2004: 19).

‘Interpretivists’, on the other hand, believe that “social reality is in our minds, and is subjective and multiple” and thus “effected by the act of investigating it” (Colls and Hussey, 2009: 57). “Whereas positivism focuses on ‘measuring’ social phenomena, interpretivism focuses on ‘exploring the complexity’ of social phenomena with a view to gaining *interpretive understanding*” (Colls and Hussey, 2009: 57, emphasis added). We may, therefore, argue that positivism is precise and produces valid results but it is impossible to do it without taking into consideration the meaning, the quality of it. For instance, it is impossible to correctly measure the exact length of the borders of any given country⁵⁸, without taking into account the meaning of the results, because as we approach the border, more and more details appear, even to the boundaries of stones, sands, atoms etc. Thus, interpretivism is not a luxury but a necessity for the development of science.

Strauss and Corbin (1998: 3) define ‘qualitative research’ as a type of research “that

⁵⁸This can only be done from a certain latitude and every measure, thus has to have the associated latitude mentioned with the numerical representation of it. In a way, this realization, forces us to accept the assertion that the question “What is the length of the borders of country X” in itself cannot even be asked without mentioning the distance of the observation and the observer. If we appreciate this strong analogy between the altitudes and the points of views of the interpretivists we can appreciate their invaluable contribution to scientific progress.

produces findings not arrived at by statistical procedures or the other means of quantification”. Qualitative research is usually conducted while studying cultures, behaviours, peoples’ viewpoints (Bryman, 1996: 46), attitudes (Hakim, 1987: 26), lived experiences, social movements, organizational functionings, emotions and feelings (Strauss and Corbin, 1998: 3) and social or human problems (Creswell, 1998: 15) of people. On the other hand, quantitative research focuses on correlations and quantified research, which however usually increases the quantity and precision of knowledge in science.

5.2.1. Research Methodology in Grounded Theory Research

In the context of grounded theory research, Strauss and Corbin (1998: 11) refer “not to the quantification of qualitative data but rather to a nonmathematical process of interpretation” while discussing **qualitative** research. Grounded theory is parallel to such a way of thinking because it is “highly formulized and descriptive” (Eriksson and Kovalainen, 2008: 167).

Grounded theory is tantamount to building causalities (Backman and Kyngas, 1999) and “uses both induction and deduction” (Eriksson and Kovalainen, 2008: 156) and “involves various aspects of inquiry (induction, deduction, even verification)” (Eriksson and Kovalainen, 2008: 156). According to Strauss (1990), all of these aspects are essential in conducting grounded theory related research.

It should be noted that “[t]he original studies and thinking about grounded theory were established using objectives embedded in positivism, and this thinking is still present in the procedures and philosophy of grounded theory, even if much of the research done within grounded theory today is following constructivist assumptions” (Eriksson and Kovalainen, 2008: 156).

In relating to the nature of qualitative study, it is clear that for this study, qualitative methodology is a must rather than an option because we not only aim at developing a new theory but also there is a shortage of quantitative data on crime, even for the countries which are known to be very good at transparently publishing and announcing every aspect of social life. For instance, the United States is one of those transparent countries, however, as Albanese (2003: 110-111) puts it, many research questions about white-collar crimes are not easily answerable by quantitative analysis

in the US “because there are no regularly collected data for white-collar crimes as there are for street crimes. Victimization surveys count only rape, robbery, assault, burglary, larceny, and motor vehicle theft. The Uniform Crime Reports, however, include forgery/counterfeiting, *fraud*, and embezzlement in their tallies of arrests which represent only offenders who are caught” (emphasis added to show the scarcity of financial crimes in crime statistics of US).

Importantly, this research aims to develop a new model to respond to the need of having an overarching theoretical model which can help to compare significantly different systems in terms of crime. Therefore, qualitative researches are -arguably- better candidates to build theories, because in qualitative research, “the researcher builds a complex, holistic picture, analyzes words, reports the detailed view of informants, and conducts the study in a natural setting” (Creswell (1998: 15), and thus provides a more flexible environment which is much needed especially while studying a very complex phenomenon such as crime.

As for data types, both qualitative and quantitative data are used in this research to develop and substantiate the grounded theory or model initiated by this study. We use qualitative data, because such data “provide a good understanding of the dynamics underlying the relationship, that is, the ‘why’ of what is happening” (Eisenhardt, 1989: 520) in theory-building researches. We also use mostly socio-economic quantitative data. In a sense, we are rather pragmatic in our use of different data types similar to Jick (1979) and Mintzberg (1979). As Yin (1984) puts it, “case study research can involve qualitative data only, quantitative only, or both”.

Thus, this study is a qualitative⁵⁹ research but the process has a “positivist view” (Eisenhardt, 1989: 546) in a response to the sophisticated nature of the issue problematised by this study. In our application, the process produced positivist results as well, as this study eventually put the analysis in the form of equations and functions.

⁵⁹ It is qualitative research, despite the considerable use of quantitative statistics, because mere use of numbers does not make the research process quantitative but the perspective on using the numbers does.

5.3. RESEARCH DESIGN

Every project begins with a certain plan, a layout just like academic research projects, which begin with research designs. According to Vaus (2001: 9) research design is “to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible”.

It can be argued that research design is the second most important part of one’s research after the formation of research questions because design is all about our research question and its implications (Bordens and Abbott, 1991). It turns “research questions into projects” (Robson, 2002: 79).

Research design is built around the unit of observation and unit of analysis, which, in this study, are cases of financial systems and countries along with a rational choice model respectively for the two different research questions in our study.

It is useful to distinguish the types of questions while choosing certain types of designs. For instance in social sciences, researchers ask two fundamental questions: (i) What is going on? and (ii) Why is it going on? As Vaus (2001: 2) puts it, “[I]t is one thing to describe the crime rate in a country, to examine trends over time or to compare the rates in different countries” but “[i]t is quite a different thing to develop explanations about why the crime rate is as high as it is, why some types of crime are increasing or why the rate is higher in some countries than in others”.

The first type of question, for instance, refers to descriptive research and the second type to explanatory research (Vaus, 2001: 1). In this study, the first research question begs an answer that is similar to the latter example: explanatory answers because we ask ‘why do people commit financial crime?’. An explanation is necessary to answer this question to show the links between the causes (attributes of the criminals in various settings) and results of the phenomenon (financial crimes with various characteristics).

Questions are important in design because the question itself presupposes that there *exists* a phenomenon known as ‘crime’ and that the behaviours that are against the norms are distinguishable through scientific analyses. Thus the questions pave the way for certain options of design in scientific research.

Using research questions is common in theory-building research, just like hypothesis-testing research, because it helps with focusing on the subject, but with the shortcoming of losing the data outside the sphere of focus. Similarly, Eisenhardt, (1989: 536) argues that *research questions should be set “in at least broad terms ... in building theory from case studies”* because “preordained theoretical perspectives or propositions may bias and limit the findings” and “it is easy to become overwhelmed by the volume of data” (emphasis added).

In addition to descriptive⁶⁰ and explanatory⁶¹ designs, there are many other types of designs, such as exploratory⁶², diagnostic⁶³ or experimental designs⁶⁴ (Robson, 2002), which answer the following question in different ways: “given this research question (or theory), what type of evidence is needed to answer the question (or test the theory) in a convincing way?” (Vaus, 2001: 9).

Yin (1984) also argues that “case studies can employ an embedded design, that is, multiple levels of analysis within a single study”. There are many examples of such designs (see among others: Pettigrew, 1988; Mintzberg and Waters, 1982).

Following this principle, as articulated by Gersick (1988) and Bettenhausen and Murnighan (1986), we began our study by asking ‘which financial systems are more vulnerable to financial crimes than others?’ but “by taking advantage of serendipitous findings”, we decided to “to switch [our] research focus to a theory building study” (Eisenhardt, (1989: 536) and asked the tentative question of ‘why do people commit financial crime?’. Consequently, as Yin (1984) suggests, we decided to “employ an embedded” and flexible, rather than fixed (Robson, 2002) design to allow multiple analyses and reconcile the needs of theory building research respectively.

Case study designs are used in the literature for satisfying many different aims such as *generating* (see: Gersick, 1988), *describing* (*i.e.* Kidder, 1982) and *testing* (*i.e.* Pinfield 1986; Anderson, 1983) theories. Eisenhardt, (1989: 535) gives the following examples of inductive case studies with different aims in business (see Table 4.1).

⁶⁰ Usually while determining the unknown details of a known, established phenomenon.

⁶¹ Usually while linking the causes and results of a certain phenomenon. For a quality discussion about explanatory research please see Given (2008).

⁶² Usually while conducting the initial research in new areas of study or while answering questions about ill-defined or unclearly defined problems.

⁶³ Usually after a clear realization of the problem.

⁶⁴ Usually after a solution, a finding to test (*i.e.* new ways of working in police organizations).

Table 5.1: Examples of Inductive Case Study Research⁶⁵

Study	Description of Cases	Research Problem	Data Sources	Investigators	Output
Burgelman (1983)	6 internal corporate ventures in 1 major corporation	Management of new ventures	Archives Interviews Some observation	Single investigator	Process model linking multiple organizational levels
Mintzberg & McHugh (1985)	1 National Film Board of Canada, 1939-1975, with 6 periods	Formulation of strategy in an adhococracy	Archives Some interviews	Research team	Strategy-making themes, "grass roots" model of strategy formation
Harris & Sutton (1986)	8 diverse organizations	Parting ceremonies during organizational death	Interviews Archives	Research team	Conceptual framework about the functions of parting ceremonies for displaced members
Eisenhardt & Bourgeois (1988)	8 microcomputer firms	Strategic decision making in high velocity environments	Interviews Questionnaires Archives Some observation	Research team Tandem interviews	Mid-range theory linking power, politics, and firm performance
Gersick (1988)	8 project groups with deadlines	Group development in project teams	Observation Some interviews	Single investigator	Punctuated equilibrium model of group development
Leonard-Barton (1988)	10 technical innovations	Internal technology transfer	Interviews Experiment Observation	Single investigator	Process model
Pettigrew (1988)	1 high performing & 1 low performing firm in each of 4 industries	Strategic change & competitiveness	Interviews Archives Some observation	Research teams	In progress

Source: Eisenhardt (1989: 535, emphasis added).

According to Eisenhardt (1989: 548) the whole research process of building theories from case studies is appropriate to use when “serendipitous findings in a theory-testing study suggest the need for a new perspective”. This is in fact what we experienced while studying our initial question. As presented in the literature review chapter, many criminologists criticize rational choice theory for saying nothing substantial about the motivations and qualities of offenders and the environment⁶⁶. “In these situations, theory building from case study research is particularly appropriate because theory building from case studies *does not rely on previous literature or prior empirical evidence*” (emphasis added). This is why we formed our second question and tried to explain ‘why do financial criminals commit crime?’ and aimed at improving the rational choice theory in criminology.

⁶⁵ Examples were chosen from recent organizational writing to provide illustrations of the possible range of theory building from case studies.

⁶⁶ It may sound odd to accuse an environmental theory of abandoning the environmental effects but we showed that rational choice theory focuses only on micro and usually less important **runtime** effects of the environment. Well, rational choice theories are indeed proactive but they are proactive for the runtime only and they disregard the pre and post crime environments which are crucial during the development of deviant behaviour. Behaviours are (even only literally) not one-shot, instantaneous acts.

Thus, following Eisenhardt (1989), we compare four major theoretical financial systems and examine ten countries which use these financial systems as case studies. This is an embedded design, where we group some of the cases (countries) under some other, fewer cases (four major financial systems) in order to make ‘multiple analyses in case study’ (Yin, 1984) research feasible. Following are the cases embedded under master cases:

Capitalist/Market Economies	:	United Kingdom, United States, Italy, Russia,
Socialist/Transitional Economies	:	China, Cuba,
Fully Islamized Economies	:	Sudan, Iran,
Partially Islamized Economies	:	Saudi Arabia, Malaysia,

As for the appropriate number of cases, Eisenhardt (1989: 549) argues that there is no strict rule but “a number between 4 and 10 cases usually works well. With fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing, unless the case has several *mini-cases* within it (emphasis added)”. In our study, obviously, there are not many distinct financial theories. Nevertheless, like Mintzberg and McHugh (1985), we used applications of financial systems as mini-cases in order to overcome the problem of sufficient number or samples.

It should be noted that there may be some concerns about the fit of China into the socialist economy framework, but Wu (2011) provides some convincing survey statistics from East Asia Barometer Survey, as shown in Tables 5.2 and 5.3, along with some predictions in Figure 5.1, which can be used to rule out these concerns.

According to Wu (2011), among the “prerequisites for Chinese modernisation” are “keeping to the socialist road, upholding the people's democratic dictatorship, upholding leadership by the Communist Party and upholding Marxism-Leninism and Mao Zedong Thought”. As can be observed from Table 5.2, the level of support for top-down policies has been on the increase during the last decade and from Table 5.3, while the level of support for rule of law and separation of powers are in decline in China since 2000.

Table 5.2: Percentages for Values of Confucian Legacies in China

Wave1	top down politics	Harmony	group orientation	connections	Total
Support	34.2% (1067)	71.2% (2149)	91.7% (5463)	35.6% (972)	65.1% (9651)
Reject	65.8% (2051)	28.8% (871)	8.22% (489)	64.4% (1761)	34.89% (5172)
Total	100%	100%	100%	100%	100%
Wave2	top down politics	Harmony	group orientation	connections	Total
Support	52.3% (2493)	63.8% (2931)	89.4% (3060)	44.8% (1885)	63.0% (15419)
Reject	47.7% (2272)	36.2% (1691)	10.6% (953)	55.2% (2326)	31.96% (7242)
Total	100%	100%	100%	100%	100%

Source: East Asia Barometer Survey (Wave One: 2001, 2002 and Wave Two: 2006, 2008)

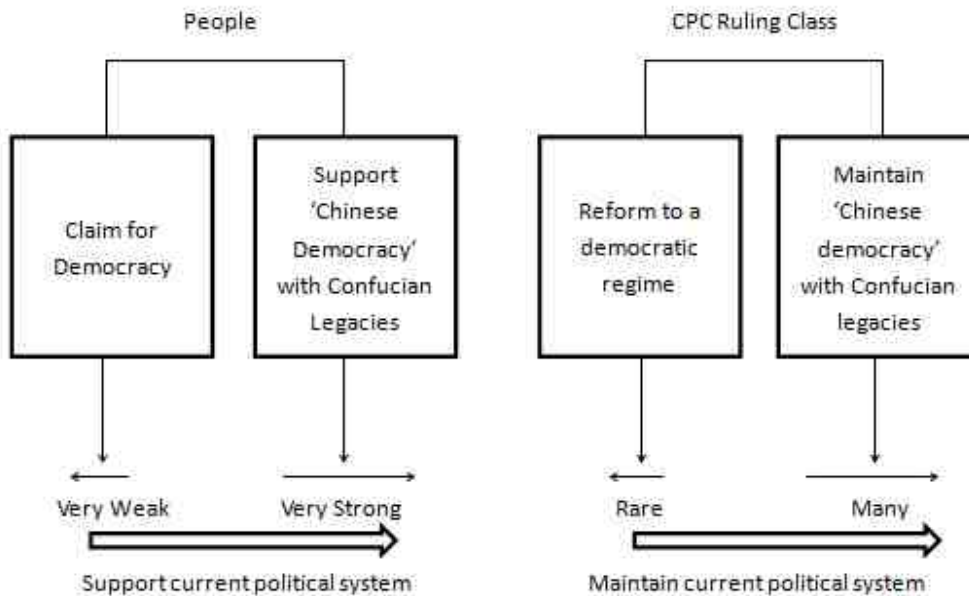
Table 5.3: Percentages for Six Dimensions of Democratic Value in China

CHINA Wave1	Political Equality	Popular Sovereignty	Political Liberty	Political Pluralism	Separation of Powers	Rule of Law	Total
Support	92.3% (2697)	34.3% (2916)	37.7% (1910)	24.3% (617)	50.4% (2335)	69.9% (1566)	46.5% (12041)
Reject	7.7% (225)	65.7% (5575)	62.3% (3159)	75.7% (1927)	49.6% (2294)	30.1% (673)	53.5% (13853)
Total	100%	100%	100%	100%	100%	100%	100%
CHINA Wave2	Political Equality	Popular Sovereignty	Political Liberty	Political Pluralism	Separation of Powers	Rule of Law	Total
Support	94.5% (4012)	37.5% (4647)	33.8% (2658)	22.8% (829)	41.9% (2618)	58.7% (1755)	44.21% (16519)
Reject	5.5% (232)	62.5% (7731)	66.2% (5211)	77.2% (2800)	58.1% (3635)	41.3% (1234)	55.79% (20843)
Total	100%	100%	100%	100%	100%	100%	100%

Source: East Asia Barometer Survey (Wave One: 2001, 2002 and Wave Two: 2006, 2008)

Similarly, Figure 5.1 shows that both people and Communist Party support the maintaining of Communism and its values.

Figure 5.1: Factors of Prediction that China will Maintain Her Current System



Source: Wu (2011)

5.3.1. Variety of Data and Research Design

Just like Strauss and Corbin (1998), we think that the considerable differences between the cases are the main resources for producing sound inferences because “selection of an appropriate population controls extraneous variation and helps to define the limits for generalizing the findings⁶⁷ ... and clarify the domain of the findings” (Eisenhardt, 1989: 536). We need maximum variety in our study in order not to be trapped into a restricted domain which would not allow us to reach conclusions about a complex phenomenon.

This is why, similar to Harris and Sutton (1986), we chose extreme cases, like Sudan and the United States (in terms of economic and ethnic variety) or Iran and Cuba (in

⁶⁷ This is indeed one of the main shortcomings of today’s research community. Even when the researches are very restricted and can be generalized to one village only, they are announced as if they are conducted in such magnitude that they can be generalized to the whole of humanity, even sometimes to the past, present and future.

terms of political and geographical variety) or China and the UK (in terms of cultural and legal variety). These varieties provided a stimulating environment to improve, renew or refuse established criminological assumptions, some of which may claim generalizability over all systems despite their population with restricted diversion. Such selections, therefore, help build theories which can survive even when they are away from their “country of origin” (Reichel, 1999: 52). Gersick (1988) and Eisenhardt (1989: 536) also agree that “it makes sense to choose cases such as extreme situations and polar types” in inductive, theory-building researches.

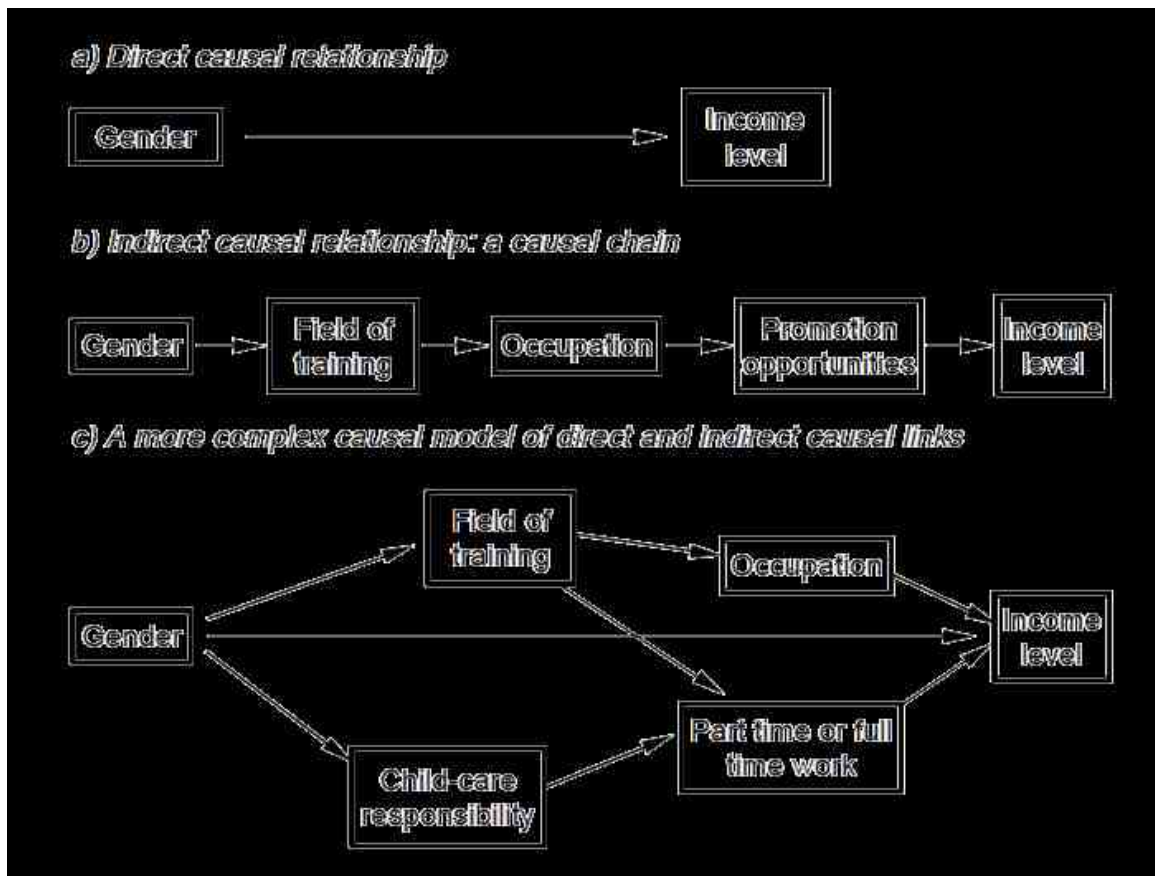
Nevertheless, we also used “[m]ultiple cases *within* each category [which] allow findings to be replicated within categories” (Eisenhardt, 1989: 536, emphasis added), such as Cuba and China (in terms of economic similarity) or UK and US (in terms of cultural, economic, legal similarity) to produce more reliable results. Thus, our cases are chosen for “theoretical, not statistical reasons” because the second best option, that is, “random selection is neither necessary, nor even preferable” (Eisenhardt, 1989: 536) in theory-building research study. Theoretical and purposeful sampling among the potential cases enabled our theory not only to be a more generalizable one but also a reliable one by means of both across and within-case comparisons for varieties and similarities at the same time.

Another important issue in theory building is the use of earlier knowledge as an initiator of the new. Eisenhardt (1989: 536) believes, “[a]priori specification of constructs can also help to shape the initial design of theory building research (emphasis added)”. For this two main priorities were referred to: firstly, realizing the *rationality* of financial criminals, like Bourgeois and Eisenhardt (1988), we used a blunt version of the main factors of rational choice theory in criminology, those are, ‘*motivation*’, ‘*target*’, ‘*guardian*’, and secondly, we used the ‘basic motivation model’ of Rollinson, Broadfield and Edwards (1998: 149) as a *priori* which helped us save time and provided a strong beginning in our theory building process. Eisenhardt (1989: 526) also writes that using *priori* specification of constructs “permits researchers to measure constructs more accurately” and probably this is why we could produce “firmer empirical ground” and a rather positivist, clear-cut, straightforward theory in the form of equations and formulas.

5.3.2. Causality and Research Design

Since we ask a ‘why’ question and conduct an explanatory research, let us discuss the consequences of causality in research design. Causal explanations argue that phenomenon Y (e.g. income level) is affected by factor X (e.g. gender)⁶⁸ and as Graph Figure 5.2 shows, there are three different types of them: direct, indirect and complex causal relationships (Vaus, 2001: 2-3). In our study theory, we are eventually proposing a **complex causal relation** between many variables.

Figure 5.2: Causal Relationships of Explanatory Research



Source: Vaus (2001: 3)

As mentioned initially, research design is the logical set-up of the research (Yin, 2003: 29; Vaus, 2001: 9), which is probably the most important part of the methodological issues. So long as the ingredients that are collected are not themselves ‘wrong’, it is logically impossible for a study to reach incorrect results if the research

⁶⁸ In our research, ‘deviant behaviour’ is affected by certain variables.

is designed correctly.

The basic logical design for the first research question in this study is as follows:

For the first research question: “Why do white collar people commit financial crimes?”

- (i) Deciding the boundaries of the comparison criterion, that is ‘financial white collar crime’, its definition and integral parts, in order to form a strong variable;
- (ii) Deciding which cases (financial systems) are to be included in the analyses; excluding all irrelevant cases and including all the relevant ones;
- (iii) Deciding which embedded cases (countries) would form the upper level cases (financial systems);
- (iv) Collection of qualitative and quantitative data on financial crimes of both embedded cases (countries) and upper level cases;
- (v) Forming the attributes of the upper level cases (financial systems) by using the similarities of the compared cases;
- (vi) Deciding which crime theory is the best available theory to explain the researched phenomenon: ‘financial white collar crime’⁶⁹;
- (vii) Deciding which differences were not explained by the current best available theory (*i.e.* inconsistent statistics of crimes against property *vs.* financial and economic statistics of opportunity of the same time interval and same geographical location);
- (viii) Finding the significant *inconsistent explanations* of the best available theory about the differences between ‘financial white collar criminality’ of upper level cases (*i.e.* inconsistency between the automatic motivation assumption of the rational choice theory and the crimes-against-property statistics and opportunity statistics of the same time-interval, same location);
- (ix) Finally, using a sound, reliable, well-established, appropriate, scientific

⁶⁹ This is necessary for time-saving reasons.

method, that is ‘grounded theory’, in order to *explain* the unexplained differences of financial white collar crimes between the upper level cases by using the criteria, techniques, procedures of this scientific method.

For the second research question: “Which financial system is the most/least vulnerable to financial white collar crime?”

(i) Deciding the number of criteria of vulnerability based on the new grounded theory to compare upper level cases;

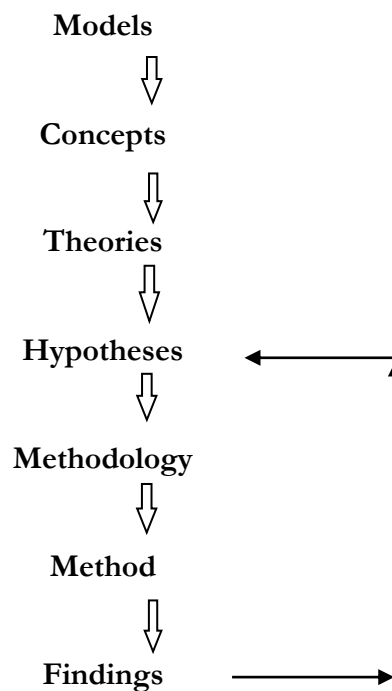
(ii) Using these criteria to put the upper level cases in the order of vulnerability level.

When the procedures are correctly done *per se*, the only logical weakness in our research design is the existence of additional financial systems that are distinct from the ones we analysed in our study. This is very unlikely, because we included all the extreme poles of the economic and financial systems that are known to the literature. In other words, there are insignificant differences between the financial systems we used as cases and the countries that apply them.

All the same, in order to overcome the last probable argument for this weakness we refer to ‘state capitalism’ and ‘market socialism’ (*i.e.* Sweden and Turkey) when necessary.

Thus, especially at the latter stages of our research, we continuously build and test a developing theory and complete the cycle of the scientific thinking which is depicted in Figures 5.3 and 5.4, as part of the procedures of the grounded theory method:

Figure 5.3: Levels of Analysis



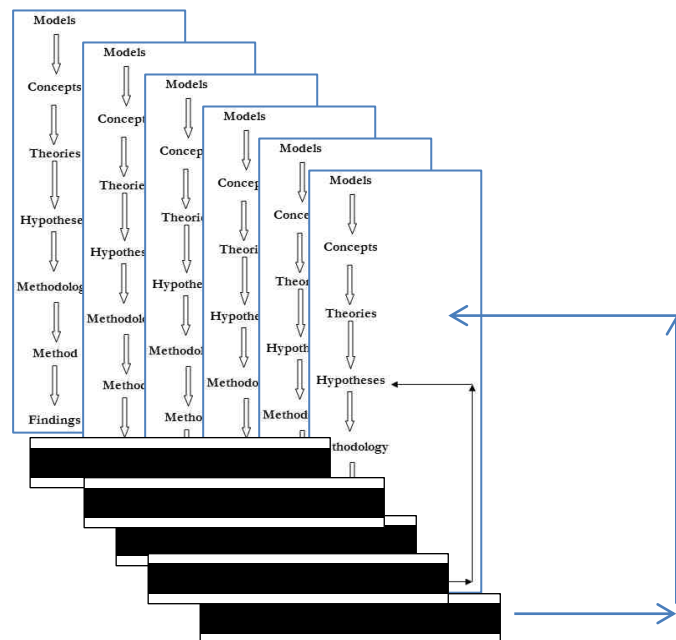
Source: Asutay (2008)

Asutay (2008) gives the examples of functionalism, behaviourism, symbolic interactionism, ethnomethodology *etc.* to exemplify the ‘models’; and crime, social classes *etc.* as ‘concepts’. Referring to this depiction of the levels of analysis, we may argue that most researchers pick up a theory to test it through the concepts they are interested in and according to their worldview (or world model). When the test confirms the pre-existing theory they used, the research is completed, but when their test reveals divergence between theory and the test results, there is a doubt about the viability of the theory in terms of its usefulness in explaining the phenomenon in question.

There are two options at this stage after making sure that no measurement mistakes have been made. First, the researcher may change his/her theory and conclude that the theory he/she used is not capable of explaining the concept in certain contexts and choose another theory from the existing literature. The second option is more cumbersome and takes more time, because this option is chosen when many pieces of

research, after their failing tests of a certain theory, suggest that the theory does not foresee the experimental reality. In this second option, these accumulated doubts force the science community to come up with a better or completely new theory about the concept under scrutiny and then comes the theory building level of the whole scientific process. We could multiply the circular process of Asutay (2008) and tailor it to pinpoint the theory building phase as in Figure 5.4 as follows:

Figure 5.4: The Level of Questioning the Underlying Theory of Our Research after Reaching A Large Enough Number of Doubts⁷⁰



Indeed, we could multiply the same process to reach ‘*n*’ number of doubts about concepts and even models. For instance if no theory among many can explain why people commit crime ‘*X*’ there is a good chance that the legal codes that define such a behaviour as a ‘crime’ should be abandoned, because it means that it is highly likely that what is meant and what is understood by the ‘concept’ of *crime* is wrong. Probably because we call some other ‘concepts’ *crime* while they are not so in reality⁷¹ and *vice-versa*. This is an important point in theory-building based research,

⁷⁰ Inspired by Asutay (2008).

⁷¹ Crombie (2005), even wrote a book on “The World’s Stupidest Laws” where he claims that in Scotland “you are presumed guilty until proven innocent for certain misdemeanours”.

because this reasoning reveals the fact that it is possible that a researcher may have a correct theory analysed under an incorrect concept. Thus, we should not be hasty to negate theories before checking the concepts we evaluate in relation to them.

In this study, the process depicted in Figure 5.4 is followed in line with the process suggested in Figure 5.3 until the theory level, and then there is conducted a grounded theory research to reach a refined or developed rational-choice-based theory in criminology; while the third level of analysis steps down one dimension and continues testing the initial hypothesis in a continuous and iterative way as recommended by Strauss and Corbin (1998) and Eisenhardt (1989). Thus, a multi-level design is conducted.

To further contextualise the process, the next section discusses the research strategy pursued in this study.

5.4. RESEARCH STRATEGY

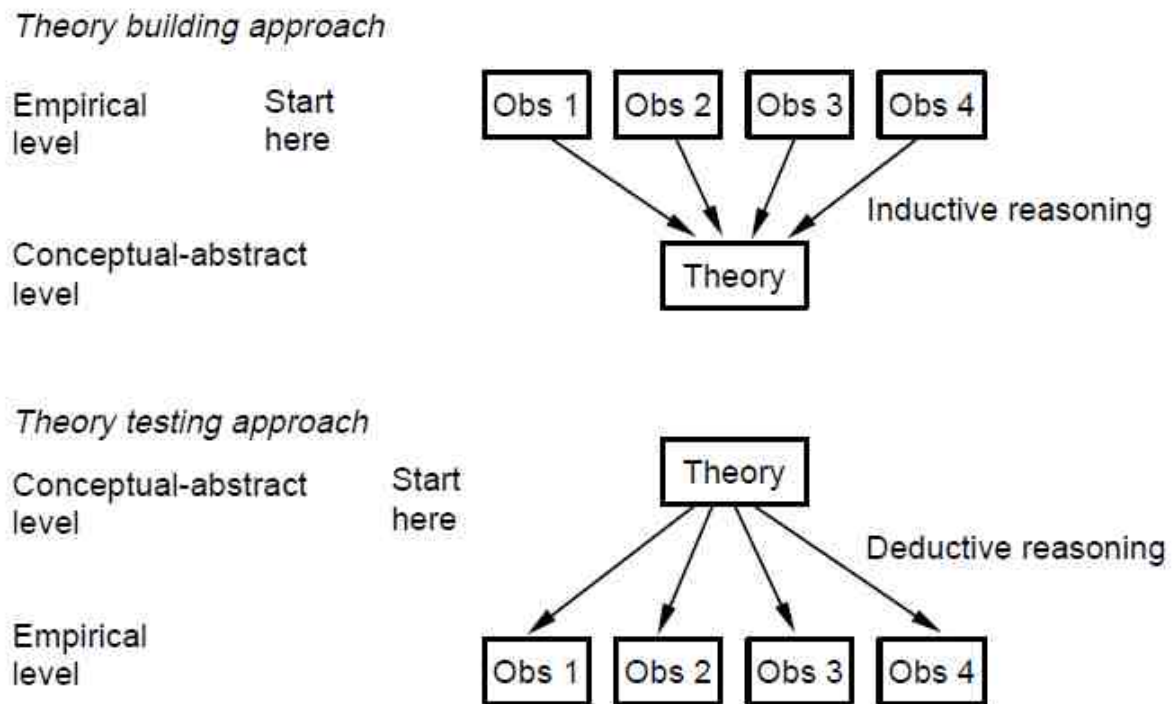
There are mainly two kinds of research strategies: inductive and deductive. According to Bryman (2001:8), in ‘deductive research’, the researcher deduces, “a hypothesis that must then be subject to empirical scrutiny”, “on the basis of what is known about in a particular domain and of theoretical considerations in relation to that domain”. ‘Inductive research’ also produces a hypothesis but this time not to test it but to produce a higher level of abstractions, generalizations to be tested later on. Induction and deduction lead the research in opposite directions and indeed form a circular system. As Babbie (2004: 25) argues, “deduction begins with ‘why’ and moves to “whether”, while induction moves in the opposite direction”.

In this study, an attempt is made to build a grounded theory which reaches certain scientific constructs through inductive reasoning (Backman and Kyngas, 1999; Strauss and Corbin, 1998: 23). As mentioned in the research design section, the only logical weakness in the reasoning in this study is the exclusion of additional explanatory cases. This, as a weakness, however, is indeed inherent in all inductive reasoning studies.

Vaus (2001) shows the involvement of the theory in the scientific reasoning process, parallel to the circular reasoning Asutay (2008) suggests. As depicted in Figure 5.5

from Vaus (2001), at theory level, theory-building research must use both inductive and deductive strategies iteratively. Strauss and Corbin (1998) and Eisenhardt (1989) agree the inevitable use of iterative and multiple strategies in theory-building researches.

Figure 5.5: Theory Building and Theory Testing Approaches



Source: Vaus (2001: 6)

5.5. RESEARCH METHODS

The preceding sections focused on the methodology, design and strategy of this research, but we did not state which methods would help us to reach these objectives. Therefore, certain scientific methods should be used to reach reliable answers for the research questions articulated in this study.

“It is important to keep in mind that theory, is not a universal law-like product, but more a result of a procedure where rules guide the search for meaning and understanding in the production of a theory” (Eriksson and Kovalainen, 2008: 159). Thus, we need to use certain methods to guide the production process.

Research method is defined as the “set of procedures and techniques for gathering and

analyzing data” (Strauss and Corbin, 1998: 3) to convincingly answer our research questions. Research methods are usually cited under the main titles of quantitative or qualitative methods. Under ‘quantitative research’, Colls and Hussey (2009) mention experimental studies, surveys, cross-sectional studies, longitudinal studies, and under ‘qualitative research’, they mention hermeneutics, ethnography, participative enquiry, action research, feminist studies, gender studies, ethnicity studies, and case studies.

There are many quantitative methods in social sciences as identified in statistical and econometrics studies. Qualitative methods are also very diverse, including, archival research, content analysis, ethnography, focus group, life history, longitudinal study, morphological analysis, participant observation, unstructured, semi-structured and structured interview, textual analysis, narratology, storytelling, shadowing, grounded theory and many more.

This research utilises grounded theory (Strauss and Corbin, 1989) as a methodology with the objective of reaching a theory via comparative case studies (Eisenhardt, 1989). It should, however, be noted that the explorative nature of the study in terms of providing content and substance to the grounded methodology should also be acknowledged.

The following sections, hence, provides the details of the methods used to attempt to build our theory.

5.5.1. Grounded Theory

‘Grounded theory’ refers “both to the *method* and the end *result* of the research process” (Eriksson and Kovalainen, 2008: 154). Unlike conventional qualitative methodologies, grounded theory research does not begin with a certain hypothesis. It works as almost a ‘reverse engineering process’, as it begins with data collection through various ways⁷² and reaches hypothesis and theories at the end of the research.

Strauss and Corbin (1998: 12) define the result of the method as a “theory that was derived from data, systematically gathered and analysed through the research process”, but the same term is also defined by them as “a general *methodology*, a way

⁷² i.e. interviews, group discussions, observation, field notes, texts, pictures and other materials.

of thinking about and conceptualizing data ... applicable to quantitative as well as qualitative studies” (Strauss and Corbin, 1998: 275, emphasis added).

The aim of the grounded theory “is to create new and theoretically expressed understandings” (Strauss and Corbin, 1998: 8) of a particular topic which needs further exploration as the topic studied in this research. Contemporary researchers believe that “it is not one method, but many: different forms exist and are used today under the umbrella of grounded theory” (Eriksson and Kovalainen, 2008: 169).

“Traditionally, authors have developed theory by combining observations from previous literature, common sense, and experience” (Eisenhardt, 1989: 532), but linking the theory to the data was weak (Perrow, 1986; Pfeffer, 1982) and yet essential (Glaser and Strauss, 1967) to produce a valid, testable, relevant theory. Thus, grounded theory helps to substantiate such a process.

Grounded theory is very popular⁷³, and is applied to very diverse fields in social sciences, such as marketing research (see: Hirshman and Thompson, 1997; Houston and Venkatesh, 1996; Goulding, 1998, 2000), business studies, tourism (see: Mehmetoğlu and Altınay, 2006), organization studies (see: Turner, 1988; Lang, 1996; Brown and Eisenhardt, 1997), sociology, psychology, law, economics, finance (Eriksson and Kovalainen, 2008), organizational control (see: Czarniawska-Joerges, 1988) and budgeting (Czarniawska-Joerges and Jacobsson, 1989).

Sociologists Glaser and Strauss (1967)⁷⁴ built grounded theory as a methodology and theory in the 1960s, when “the social sciences were dominated by the *logico-deductive theory generation*, analysis and method approach, and the idea of the grounded theory approach to a large extent reflects that time period” (Eriksson and Kovalainen, 2008: 158). They (1967:8) were motivated by the fact that this approach “strongly exaggerates the place of the theory testing in science” despite the fact that “the researcher does not approach reality as *tabula rasa* – that he or she must have a perspective to see relevant data and abstract significant categories from it”.

The original idea of grounded theory is expanded and elaborated in different forms of

⁷³Graham R Gibbs from the University of Huddersfield even gives some percentages of its popularity. To him, grounded theory makes up 50% of the whole qualitative research and discourse analysis, phenomenology and ethnography make up approximately 10%.

⁷⁴They published the book named “The Discovery of Grounded Theory” in 1967.

methodology and terminology by Glaser (1992, 2002), Corbin and Strauss (1990) and Strauss and Corbin (1998), among others. The details of the grounded theory, according to the contributions of these contenders, are, as a process, provided below:

5.5.1.1. Main procedures

According to Strauss (1990: 23), the main procedures for grounded theory analysis are:

- (i) The concept-indicator model, which directs the coding;
- (i) Data collection;
- (iii) Coding;
- (iv) Core categories;
- (v) Theoretical sampling;
- (vi) Comparisons;
- (vii) Theoretical saturation;
- (viii) Integration of theory;
- (ix) Theoretical memos;
- (x) Theoretical sorting.

In terms of actual conduct, grounded theory process requires “constant comparison”, identifying the “underlying and emerging uniformities in the indicators”, “produce a coded *category* or *concept*”, comparing “these concepts with the empirical indicators and also with each other, in order to rephrase and possibly reformulate the *definition* of the concept and its *properties*” (Eriksson and Kovalainen, 2008: 159, emphasis added).

Referring to Strauss’s (1990: 23) procedures, and Strauss and Corbin (1998), we may give a mechanistic, iterative and simultaneous procedure for grounded theory as follows:

- (i) Determining the primary and secondary phenomena
- (ii) Using analytic tools to relate the phenomenon to events and happenings
- (iii) Come up with certain concepts.
- (iv) Determine the categories of the concepts
- (v) Determine the properties and sub categories of the categories
- (vi) Determine the core category
- (vii) Integrate the quantified and organized data “into a coherent theoretical

formulation” (Strauss and Corbin, 1998: 75)

(viii) Clarify the details

(ix) Relate the grounded theory to the relevant literature and previous research.

Indeed, Eisenhardt (1989: 533) gives a similar process in her work, ‘Building Theories from Case Studies’ which includes many of the above procedures. Eisenhardt’s procedures are preferable because they suit our design. We used her process along with the traditional grounded theory method, because Eisenhardt’s (1989) work also “synthesizes previous work on ... grounded theory building (e.g. Glaser and Strauss, 1967)”. Indeed, Glaser and Strauss (1967) and Strauss (1990), the founders of grounded theory methodology, were a few of the initial authors contributing to building theories, using case studies. Table 5.4 provides a step-by-step roadmap for theory building by using comparative cases.

Table 5.4: Process of Building Theory from Case Study Research

Step	Activity	Reason
Getting Started	Definition of research question Possibly a priori constructs Neither theory nor hypotheses	Focuses efforts Provides better grounding of construct measures Retains theoretical flexibility
Selecting Cases	Specified population Theoretical, not random, sampling	Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases - i.e., those that replicate or extend theory by filling conceptual categories
Crafting Instruments and Protocols	Multiple data collection methods Qualitative and quantitative data combined Multiple investigators	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
Entering the Field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analyses and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
Analysing Data	Within-case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence through multiple lenses
Shaping Hypotheses	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence for "why" behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory Builds internal validity
Enfolding Literature	Comparison with conflicting literature Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions Sharpens generalizability, improves construct definition, and raises theoretical level
Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Eisenhardt (1989: 533)

Based on this procedure, the following section explains the terminology and tools of grounded theory along with their use during the research process.

5.5.1.2. Coding

During grounded theory research, many analyses are made and codes are constructed as “any possible product” of those analyses (Eriksson and Kovalainen, 2008: 164). According to Colls and Hussy (2009: 179), codes “are labels which enable the qualitative data to be separated, compiled and organized”.

Strauss and Corbin (1998) are more explicit about the coding and the procedures that produce codes. According to them, ‘coding’ is “the analytic process through which data are fractured, conceptualized, and integrated to form theory” or mere “conceptualizing, reducing, elaborating, and relating” (Strauss and Corbin, 1998: 3, 12).

According to Strauss (1990: 20), coding includes asking and answering questions to provide hypotheses about categories. In many ways, the coding process in grounded theory quantifies the qualitative data through an iterated process of summaries and compressions into *codes*, *concepts*, *categories*, *properties*, *subcategories* and finally *theories*.

Some (such as: Charmaz, 2000) prefer using the term ‘categories’ instead of ‘concepts’, but Strauss and Corbin (1998) see *categories* as higher order concepts in the data and we follow their definition in this specific case in order to increase the capability of branching throughout the coding process.

There are mainly three types of coding: *open* coding, *axial* coding and *selective* coding (Strauss and Corbin, 1998: 101). In practice, all three levels of coding processes are conducted simultaneously (Colls and Hussey, 2009: 179).

According to Strauss and Corbin (1998: 13), coding procedures:

- (i) build rather than test theory
- (ii) provide researchers with analytic tools for handling masses of raw data
- (iii) help analysts to consider alternative meanings of phenomena
- (iv) be systematic and creative simultaneously
- (v) identify, develop and relate the concepts that are the building blocks of theory

Strauss and Corbin (1998: 101) define these terms as follows:

Phenomena: Central ideas in the data represented as concepts

Concepts: The building blocks of theory

*Categories*⁷⁵: Concepts that stand for phenomena.

Properties: Characteristics of a category, the delineation of which defines and gives it meaning.

Dimensions: The range along which general properties of a category vary, giving specification to a category and variation to the theory.

Subcategories: Concepts that pertain to a category, giving it further clarification and specification.

In theory-building research, we utilize all of this terminology and “work with concepts rather than specifics of data or cases” (Strauss and Corbin, 1998: 81). We analyse, conceptualize, relate and construct the data at a higher level and produce a representation of the data that is related but distinct from the data. This representation or the *code* is “*not the specific incident per se but rather what the incident symbolizes or represents*” (Strauss and Corbin, 1998: 81).

5.5.1.2.1. *Open coding*

Open coding describes what is taking place in the data (Strauss and Corbin, 1998), and is defined as “the analytic process through which concepts are identified and their properties and dimensions are discovered in data” (Strauss and Corbin, 1998: 101). According to Strauss and Corbin (1998: 101), during the open coding process, the following series of activities are necessary: determining phenomena, concepts, categories, properties, dimensions and subcategories.

The open coding process usually begins “with an initial line-by-line analysis” (Eriksson and Kovalainen, 2008: 161) and usually researchers find key words, phrases or sentences during the open coding process (Eriksson and Kovalainen, 2008: 161), but this is not a feasible option for ‘building theories from case studies’ (Eisenhardt, 1989) like ours but rather for interview researches.

⁷⁵For instance Bourgeois and Eisenhardt (1988) used performance and size along with other categories in their research on business.

5.5.1.2.2. Axial coding

Axial coding is the “restructuring of the data and developing various patterns with the intention of revealing links and relationships. The process includes the development of the properties of the concepts and categories of concepts and *linking them at the dimensional level*” (Colls and Hussey, 2009: 180, emphasis added). This process, “transfers the analysis away from description and towards linking codes together, in order to proceed with the explanatory *categories*”. Generally, the axial coding is done by uncovering the relations via the method of looking for answers to questions such as why or how come, where, when, how and with what result. (Eriksson and Kovalainen, 2008: 165).

During *axial coding*, “the researcher will construct *mini-theories* about the relationships that might exist within the data and which need to be verified. Although the overall theoretical framework will not be discovered during axial coding, the mini-theories can be incorporated into and form part of the overall paradigm model that is being developed alongside the research” (Colls and Hussey, 2009: 180, emphasis added).

5.5.1.2.3. Selective coding

In selective coding, researchers “select one category that forms the basis for the theory” (Eriksson and Kovalainen, 2008: 161). This category, now named ‘the core category’ is systematically related to other categories in selective coding by “validating these relationships and filling in categories that need further refinement. This process enables themes to be generated which can then, be ‘grounded’ by referring back to the original data” (Colls and Hussey, 2009: 181).

The researcher should be careful during the selective coding process. If the data or deductive reasoning does not suggest the formation of categories and sub-categories, the researcher should not force extracting such meanings and links (Colls and Hussey, 2009: 157).

5.5.1.3. Analytic tools

Iterative ways of quantification and abstraction, the codes, are products of certain analytic tools that are used during coding processes in grounded theory. Strauss and

Corbin (1998: 87) define 'analytic tools' as "devices and techniques used by analysts to facilitate the coding process". There are mainly four analytic tools: 'asking questions', 'making theoretical comparisons' and 'theoretical sampling' (Strauss and Corbin (1998: 73) and using 'field notes'.

According to Strauss and Corbin (1998: 89), analytic tools are useful in many ways in the theory building process, for instance they:

- (i) Steer a researcher's thinking away from the confines of both the technical literature and personal experience
- (ii) Avoid standard ways of thinking about phenomena
- (iii) Stimulate the inductive process
- (iv) Focus on what is in the data and do not take anything for granted
- (v) Allow for clarification or debunking of assumptions made by those being studied
- (vi) Listen to what people are saying and doing
- (vii) Avoid rushing past "diamonds in the rough" when examining data
- (viii) Force the asking of questions and the giving of provisional answers
- (ix) Allow fruitful labelling of concepts, although provisionally
- (x) Discover properties and dimensions of categories

The following sections explain the roles of these tools during the coding process further.

5.5.1.3.1. Asking questions

Strauss and Corbin (1998: 73, 90) define the analytical tool of 'asking questions' as a device which is "used to open up the line of inquiry and direct theoretical sampling" or to help "a writer get past that initial block of not knowing where to start".

They distinguish different levels of questions such as "abstract and theoretical, substantive and mundane". Some questions for example "stimulate further questions, which in turn stimulate further questions, in a chaining of extended investigation" (Strauss and Corbin, 1998:75) while others "turn out to be wonderfully productive" or so "ideologically driven that they answer themselves, although incorrectly, shutting

off further enquiry”.

They also give categories of questions as tools. For instance: (i) sensitizing; (ii) theoretical, (iii) practical and structural, (iv) guiding questions; or (ii) temporal (*i.e.* frequency, duration, rate, timing), (ii) spatial (how much space, where, open or closed, circumscribed or not), (iii) informational (*i.e.* who, where) and (iv) questions about rules and cultural values, morals and standards (*i.e.* purity, quality) (Strauss and Corbin, 1998: 77-78).

After asking questions about certain comparative aspects of the phenomena, “stimulated” (Strauss and Corbin, 1998: 91), we then may use theoretical sampling of the same or of different data to answer our questions.

‘Asking questions’ is used immediately after the main phenomenon is determined, that is, ‘financial crime’ in our study. So that many specific questions about the phenomenon emerge to explain how it relates to the events and happenings observed in the data.

5.5.1.3.2. *Theoretical comparisons*

‘Theoretical comparison’ is defined as “[a]n analytical tool used to stimulate thinking” or to enrich our understandings about properties and dimensions of categories” (Strauss and Corbin, 1998: 73). This analytic tool “moves the researcher away from describing the specifics of a case ... *to thinking more abstractly*” (Strauss and Corbin, 1998: 83, emphasis added).

There are mainly two types of comparisons: Type I and Type II. Type I comparison relates to an “incident to incident or object to object comparison” (Strauss and Corbin (1998: 80). while the type II comparison (theoretical comparison) is a far-out, rather than close-in, comparison.

By using comparisons, people “draw on what they know to try and understand what they do not know... They take the properties of one object and compare them to those of the other. And in that way they discover what is similar and different about each object and thus define the objects” (Strauss and Corbin (1998: 80).

But, when do we use theoretical comparisons? Strauss and Corbin (1998: 80) answer

this question as follows: we use them “when we want to think about an event or object in different ways (range of possible meanings)”. And this is what we did time and again in our research. We used theoretical comparisons in many possible ways (*i.e.* while defining our codes and finding out their characteristics).

Theoretical comparison is a crucial part of the grounded theory research, as “theoretical comparisons are tools for looking at something somewhat objectively, rather than naming or classifying it without a thorough examination” but “if the properties are evident within the data, then, we do not need to rely on these tools” Strauss and Corbin (1998: 94).

At the time of the use of theoretical comparison as a tool, Strauss and Corbin (1998: 94) recommend the use of ‘flip-flop technique’, that is looking at opposites and extremes of the phenomena because comparison under various conditions may elicit the properties and dimensions. In this sense, this research benefited much from the purposeful choosing of the extreme cases: market economy, socialist economy and Islamic economy.

5.5.1.3.3. Theoretical sampling

‘Theoretical sampling’ is also a critical feature of grounded theory research (Webb, 2003; Becker, 1993), and is defined as a “[s]ampling on the basis of emerging concepts, with the aim being to explore the dimensional range or varied conditions along which the properties of concepts vary” (Strauss and Corbin, 1998: 73). In a more explicit way, Glaser and Strauss (1967: 45) define theoretical sampling as “the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and *decides what data to collect next and where to find them, in order to develop his theory as it emerges*” (emphasis added).

Theoretical sampling is carried out at certain stages of the grounded theory research process, where the researcher thinks it is necessary to gather sampling from certain subject areas or groups of individuals and this is led by the evolving theory. “This means that the decisions regarding what data to collect are determined by the specific requirements of the theory” (Elliott and Lazenbatt, 2005: 50).

In a similar vein, in this research, we began collecting data for the fundamental concepts of current rational choice theory, namely, the most discussed ‘motivation’, and therefore we delved into many properties and categories of this and other concepts one by one and collected necessary data for each one of the comparisons. However we did not confine ourselves to the *priori* conceptualization of the earlier rational choice theory, and, therefore, attempted to develop additional concepts of our own such as ‘offenders’ and ‘environment’ *etc.* in modifying the existing theory.

5.5.1.3.4. Field notes

Field notes are the notes researchers take during any stage of the research process with the aim of reviewing them when necessary, for instance, at the end of the research process to check the saturation of the theory.

Eisenhardt (1989: 539) recommends “to write down whatever impressions occur, that is, to react rather than to sift out what may seem important [and] ... to push thinking in these notes by asking questions such as “What am I learning?” and “How does this case differ from the last?”

According to Van Maanen (1988), field notes provide a continuous consciousness about the research. Just as grounded theory researchers foresee, towards the end of our study, many field notes⁷⁶ had accumulated which provided a review of the crucial ideas, connection, ties, warnings, clarifications, confirmations about various parts of the studied material. These notes can be the focal point, though very small in size, of the relocating and renewing the process to extend, enlarge or restrict and focus the studied material.

5.5.1.4. The dynamic process of grounded theory

Glaser (1978) calls the dynamic nature of the grounded theory research an ‘emergent fit’. Elliott and Lazenbatt (2005: 49, emphasis added), explain this dynamism by linking the aforementioned concepts and tools in a very succinct way as follows:

The researcher starts analysing data as soon as it is collected and then moves on to compare the analysis of one set of data with another... As the research progresses, the researcher continues to review the categories as further new data is collected, so as to

⁷⁶ Some of which were in electronic locations in written format in note-taking software or spoken to voice recording machines and other electronic recording software. Still others were in written notes on papers.

ensure that data is not being forced into the categories but rather that the categories represent the data. This *dynamic relationship between data collection and analysis* enables the researcher to check if preliminary findings remain constant when further data is collected. Taken together, constant comparative analysis and data collection offer the researcher an opportunity of generating research findings that represent accurately the phenomena being studied.

This study, likewise, commenced by recoding the financial and crime related facts about the compared countries but as the data on crime and related facts accumulated, the researcher realised that the definition of ‘crime’ in one country is not the same in another. This comparative fact forced the study to research more about the approaches to the concept of crime before the definition of ‘financial crime’. After researching the different perspectives on crime, the pure legal definition was abandoned in favour of socio-legal definition, because legal definition simply closes the door on this comparative research. Yet, the new definition forced us to realise that if social constraints and characteristics are important in criminology one ‘static’ theory fitting all would not solve the theoretical question at all. Rather, a dynamic theory which both takes the environment into consideration and dynamically moves with the parameters of *changing* environment is necessary. Then, environmental data is collected from various aspects.

This iterative process was run many times in many years during the research process and eventually produced a dynamic theoretical explanation, which is capable of differentiating, optimizing, maximizing, minimizing, opting out various variables of its own construct, its own processes in many scales, ‘concepts’, ‘dimensions’, ‘categories’, ‘sub-categories’ *etc.* (please see Appendix 1).

5.5.2. Data Collection and Analysis

In grounded theory research, ‘data collection’, ‘data analysis’ (Corbin and Strauss, 1990; Strauss and Corbin, 1998; Charmaz, 1990, 2000) and ‘coding’ (Glaser and Strauss, 1967; Eisenhardt, 1989) processes are done simultaneously. The researcher begins the analysis process before he/she finishes the data collection process. Conventionally though, in most research, data collection and analysis are done and presented separately. All the same, we use separate titles in following this tradition, as in the following sections.

5.5.2.1. Data collection

Data is a succinct and able representation of various phenomena, concepts, commands, information, communication, comment and calculations by means of numerical figures, text, voice, symbols, graphs, pictures *etc.* (Üstün, 2011). What Strauss and Corbin (1998: 11) mean about ‘data’ is more *relative* than traditional literature. According to them, “*some of the data may be quantified* as with census or background information about the persons or objects studied, but the bulk of the analysis is interpretive” (emphasis added).

As mentioned previously, there are many ways of collecting data in qualitative research: grounded theory, interviews, protocol analysis, repertory grid technique, diary methods, observation, focus groups, narratology, storytelling, classical ethnography, shadowing *etc.* are only a few of them which use interviews and group discussions, observation and reflection on field notes, various texts, pictures, and other materials and sources of data.

In grounded theory research, the most common data collection method is interviews (Daymon, 2002), but other methods such as observations, surveys and discursive methods are also frequently used and “[t]he literature is consulted as part of the iterative and continuing process of data collection, simultaneous analysis and emergent interpretation” (Eriksson and Kovalainen, 2008: 162), because in grounded theory research “specific procedures are used ... without commitments to specific kinds of data or specific theoretical interest” (Eriksson and Kovalainen, 2008: 155).

The data collection phase of any research on white-collar crime, though, is almost impenetrable. Geis and Meier, (1977: 3) explain why:

Those few white collar criminals who are sentenced to correctional facilities tend to be long gone from their cells before the sociological researcher, with questionnaire in hand, locates them. White-collar criminals, too, especially those from the corporate and political worlds, are quite as skilful and adept as researchers are, so that they can sidestep adroitly the kinds of invidious inquiries that often mark studies of traditional criminals.

Lomborg and Kirkevold (2003) find the use of grounded theory efficient in such circumstances, because it produces very complex and dense theories (Cutcliffe, 2000). It should be noted that grounded theory is also very liberal in data collection, as “[a]ny data collection method associated with interpretive paradigm can be used in a

grounded theory methodology” (Colls and Hussey, 2009: 157: 158), but there exists the “difficulty of dealing with the considerable amount of data generated and the question of the generalizability of the findings” (Colls and Hussey, 2009: 157: 158).

We used secondary qualitative and quantitative data from the following economic, social, censal, financial, criminal databases and data warehouses: IMF, OECD, WB, UN; indices: Hofstede Culture Indices, Competition Index, Transparency International Index, Corruption Index, Human Development Index, statistics (*i.e.* of population, stock indices, crime *etc.*) and maps (*i.e.* of financialization, of prison populations, debt *etc.*).

Unlike classical data collection and analysis methods, grounded theory “has implications for the researcher preparing a research proposal insofar as the questions used for data collection or the sampling strategy cannot be pre-determined before the grounded theory research begins, but can emerge only from the data analysis.” (Elliott and Lazenbatt, 2005: 50). Since this study was designed as a case study, the collection and analysis of data is, hence, affected by this choice. We believe that this is the best design for gathering satisfactory data and analysing it to build a quality, saturated grounded theory in financial crime inquiry. Some may assume that case study enforces a particular way of gathering and analysing data under case study design, however Yin (2003, 32), among others, states that “the method [case study] does not imply any particular form of data collection - which can be qualitative or quantitative”. In substantiating this, Eisenhardt (1989: 534) agrees that “[c]ase studies typically combine data collection methods such as archives, interviews, questionnaires, and observations. The evidence may be qualitative (*e.g.*, words), quantitative (*e.g.*, numbers), or both” and exemplifies Sutton and Callahan (1987), Mintzberg and McHugh (1985), Eisenhardt and Bourgeois (1988). Thus, as this discussion indicates, “[t]heory-building researchers typically combine multiple data collection methods” because “the triangulation made possible by multiple data collection methods provides stronger substantiation of constructs and hypotheses (emphasis added)” Eisenhardt (1989: 537). Data collection methods in such research range from mere observation (Gersick, 1988) to quantitative laboratory data (Bettenhausen & Murnighan, 1986).

5.5.2.2. Triangulation

As a mix method, triangulation in data collection is a more ambitious and more reliable method, as it increases the validity and reliability of the research by double checking and cross examination of the results - only if the multiple methods reach the same conclusions (Denzin, 1978).

There are many types of triangulation: the use of multiple sources of data (Jick, 1979), multiple research methods, researchers (Colls and Hussey, 2009: 85) or theories (Easterby-Smith, Thorpe and Lowe, 1991). This study uses data triangulation of descriptive, discursive⁷⁷ qualitative and experimental, statistical quantitative data to produce a strong, reliable and valid grounded theory.

This study, hence, focuses on a complex phenomenon of - financial - crime and especially while studying such phenomena we need to have many, instead of one, reference points in making sure that the research represents a robust approach. Indeed this is the theoretical background of the emergence of triangulation. One cannot find his/her place on earth by referring to one or two reference points⁷⁸. We may refer to a famous analogy here: Describing the elephant by blind people. Since they touch only one part of it, they describe it either as a big leg, or a big ear or but not as an elephant. Unfortunately this is a common picture in the research community. Usually only one type of data is chosen which may not always be useful to depict the complexities of social phenomena under scrutiny.

The same issue is observed when someone looks very closely at a big advertisement. Meaningless dots would be seen, but far-away lookers also do not see the reality; they may think that the picture 'is' the reality and not a false representation of it, made up of many dots. In order to see the reality, various points of view should be unified and presented by the same source, just like researchers using the triangulation successfully do. Moreover, since grounded theory requires 'saturation' or completeness to end the research process, this is better accomplished by using more than one type of data.

⁷⁷According to grounded theory, when researchers get stuck in an "analytic rut", they can pull themselves out "through *analysis of a word, phrase or sentence*. This is especially valuable because it enables the analyst to *raise questions about possible meanings* (Strauss and Corbin, 1998: 92, emphasis added)".

⁷⁸For instance this is how GPSs work, by gathering spatial information from at least three satellites.

“Indeed, a key feature of theory-building case research is the freedom to make adjustments during the data collection process” one of which “can include the addition of data sources in selected cases” Eisenhardt (1989: 539). This study used this kind of adjustment in our study to provide uniformity in comparison⁷⁹ because it was sometimes not easy to reach uniform data for these extreme cases.

Eisenhardt (1989: 539; emphasis added) also explains why it is all right to make adjustments in the data collection process as follows:

These alterations create an important question: *Is it legitimate to alter and even add data collection methods during a study?* For theory-building research, the answer is “yes,” because investigators are trying to understand each case individually and in as much depth as is feasible. The goal is not to produce summary statistics about a set of observations. Thus, if a new data collection opportunity arises or if a new line of thinking emerges during the research, it makes sense to take advantage by altering data collection, if such an alteration is likely to better ground the theory or to provide new theoretical insight. This flexibility is not a license to be unsystematic. Rather, this flexibility is controlled opportunism in which researchers take advantage of the uniqueness of a specific case and the emergence of new themes to improve resultant theory.

5.5.2.3. Data Analysis

“A striking feature of research to build theory from case studies is the frequent overlap of data analysis with data collection” (Eisenhardt, 1989: 538), which is due to the dynamic and the engaging nature of grounded theory. Nevertheless, data collection is an essential aspect of grounded theory as well.

According to Eisenhardt (1989: 539; emphasis added) data analysis is at “the heart of building theory from case studies, but it is both the most difficult and *the least codified part of the process*. Since published studies generally describe research sites and data collection methods, but give little space to discussion of analysis, a huge chasm often separates data from conclusions”. After all, “[o]ne cannot ordinarily follow how a researcher got from 3600 pages of field notes to the final conclusions, sprinkled with vivid quotes though they may be” (Miles and Huberman, 1984: 16).

For the data analysis phase of building grounded theories from case studies, it may be argued that there are mainly two kinds of data analysis, those are, within-case analysis and across-case analysis. These are explained in more detail in the following section

⁷⁹ Usually to elevate the underrepresentation of less transparent cases to more transparent ones.

5.5.2.3.1. *Within-Case Analysis*

As the name suggests, researchers focus on one specific case within case analysis. In relation to this phase in this study, we analysed individual cases⁸⁰ by utilizing write-ups which are pure descriptions of the cases and are used to generate insights (Gersick, 1988).

There are no certain formats of write-ups, even “probably as many approaches as researchers. However, the overall idea is to become intimately familiar with each case as a stand-alone entity. This process allows the unique patterns of each case to emerge before investigators push to generalize patterns across cases” (Eisenhardt, 1989: 540).

It should be noted that in case studies, the volume of the data is so big⁸¹ that as cited by Eisenhardt (1989: 540), some researchers, such as Pettigrew (1988), claim the risk of death by over exposure to data, data asphyxiation, and these analyses “help researchers to cope early in the analysis process with the often enormous volume of data”. Throughout the research process, we generated write-ups which encompass different aspects of the individual cases when combined in the final compilation. Since their volume is colossal it was not possible to attach it to the written text but it is electronically available on demand.

5.5.2.3.2. *Across-Case Analysis*

“Overall, the idea behind these cross-case searching tactics is to force investigators to go beyond initial impressions” Eisenhardt (1989: 541). The problem with the cross-case analysis is that “investigators reach premature and even false conclusions as a result of these information-processing biases” and the solution is “counteracting these tendencies by looking at the data in many divergent ways” (Eisenhardt, 1989: 540).

Eisenhardt (1989) also recommends using small tables to look at the data in divergent ways and we utilized this method after presenting the write-ups, after discussing the cases in many different, relevant ways, such as, culture, morality, ethics, legal

⁸⁰ During this process, at the initial stages of the study, the researcher utilized many audio-visual materials about the cases as well. Since it was not feasible to visit all the cases and have a first-hand experience, presentations, documentaries, advertisements, audiobooks, pictures, maps and other similar materials were utilized to have a familiarity with the cases for within case analyses.

⁸¹ e.g., 383 pages of case history write-ups for Mintzberg and McHugh’s (1985) research (Eisenhardt, 1989: 540).

systems, political systems, financial systems, criminology perspectives, religion, geography, technology, health, wealth, debt habits, GDP and the like.

In a second strategy, we compared data from different data sources to check our analyses because “[w]hen a pattern from one data source is corroborated by the evidence from another, the finding is stronger and better grounded [and] [w]hen evidence conflicts, the researcher can sometimes reconcile the evidence through deeper probing of the meaning of the differences” (Eisenhardt, 1989: 541).

This has been crystal clear while answering the second question in the sense of comparing the financial systems in order to put them into the order of financial crime vulnerability because we observed the same order time and again at the end of almost all the criterion of comparison save very few. Thus the results were very robust as they were confirmed many times by different but relevant other factors of comparative analysis.

5.5.2.3.3. *Shaping Hypotheses*

While shaping hypotheses, we “compare systematically the emergent frame with the evidence from each case in order to assess how well or poorly it fits with case data” because “close fit is important to building good theory” (Eisenhardt, 1989: 541).

As the experience indicates through theoretical informed understanding, hypotheses are formed in a “highly iterative” way and “through constant *comparison between data and constructs* so that accumulating evidence from diverse sources converges on a single, well-defined construct” (Eisenhardt, 1989: 541, emphasis added). This process is “*similar to developing a single construct measure from multiple indicators in hypothesis-testing research*” (Eisenhardt, 1989: 541, emphasis added) such as factor analysis.

Miles and Huberman (1984) and Sutton and Callahan (1987) use tables for reaching such constructs, but we prefer building hypotheses in a gradual sense by first building the smallest and sometimes very obvious constructs and then linking them to a higher level of construct by using symmetries between very similar constructs. We shaped hypotheses sometimes by even utilizing some codes which can be considered unnecessary for some, such as ‘illegal punishment’ and ‘legal targets’ but we think

that these codes helped improve our understanding of the subject significantly and unexpectedly.

Eisenhardt (1989) argues that “careful construction of construct definitions and evidence produces the sharply defined, measurable constructs which are necessary for strong theory” (Eisenhardt, 1989: 542). This is indeed completely true for this specific research and the unexpected sharpness of the results even surprised the researcher.

As a second phase in shaping hypotheses, Eisenhardt (1989) recommends verifying the fit of emergent relationships between the new constructs with the data and we present the evidence from the data confirming the relationships while presenting the codes and their definitions in Appendix 1. Indeed this process could be included in the main body of the text and indeed it deserves to be. Nevertheless, word limits upon an acceptable PhD thesis force us to put it in the appendices. Yet, this should not mean that the coding process, which shows the hypothesis building process and reveals the connections of the analyses and the data in a dynamic way, was secondary in importance. On the contrary, it was an essential and more demanding part of this research, which required a large amount of time, as these codings determined the nature of this study.

As part of the process, the verification process is done against each case as suggested by Yin (1984), where disconfirmation “provide[s] an opportunity to refine and extend the theory” (Eisenhardt, 1989: 542). Similar to Eisenhardt and Bourgeois (1988), we found this phase very useful, because it helped us in developing and expanding our theory in many ways, probably because we have chosen fairly extreme cases many of which provided crucial insights about the consequences of generalizability of the emerging theory.

It is no surprise that the text is large in size because “researchers cannot apply statistical tests such as an F statistic. The research team must judge the strength and consistency of relationships within and across cases and also *fully display the evidence and procedures* when the findings are published, so that readers may apply their own standards” (Eisenhardt, 1989: 544, emphasis added). As mentioned, this chapter provides the details of the methodological procedures, while coding procedures and the outcomes are presented in the Appendix section, and most of the

important analyses are presented in Chapter 6. It is not possible to present the whole coding and analysis processes, field notes, write-ups and the whole collected data, because it would probably amount to thousands of pages.

5.5.2.4. Time Framing

Time is an important parameter for Rational Choice Theory because every crime has the same basic building blocks, namely, time, place, target and perpetrator of criminality (Cohen and Felson, 1979) and consequences change when the time changes. We confined our research to the period between 1980 and 2013.

Due to the nature of this study, political, economic and financial movements and their timing are important for our study, because financial systems are affected by these movements and indeed they are in constant change. Naming some systems as ‘transitional’ is the obvious evidence of such an effect. However, although systems change over time, the socialist-capitalist framework of comparison has until 1990 proven to accommodate the modest changes taking place in economic systems (Asutay, 2010). Since the advent of major political changes in the Soviet Union, beginning in 1985, unprecedented systemic changes have taken place in the USSR and in many of the formerly planned systems of Eastern Europe and China.

Although the roots of the rapid changes now underway reach back to the 1980’s, and earlier, the 1990s ushered in a new world order. Astonishing events of 1990-91 were (Asutay, 2010):

- (i) End of the Cold War
- (ii) German reunification
- (iii) The fall of the Communist governments of Eastern Europe
- (iv) Collapse of Japanese “bubble economy”
- (v) Crisis in the Swedish Model of Welfare Socialism

Considering these essential marking points, this study limited the time frame to the period from the beginning of 1980 to the end of 2013.

5.5.2.5. *Enfolding Literature*

According to Eisenhardt (1989: 544) “[a]n essential feature of theory building is comparison of the emergent concepts, theory, or hypotheses with the extant literature. This involves asking what is this similar to, what does it contradict, and why. A key to this process is to consider a broad range of literature” for increasing “validity, generalizability, and theoretical level” (Eisenhardt, 1989: 544).

It should, however, be noted that the literature does not direct the analyses in grounded theory, but even if it does, these links with the literature do not take place in a descriptive manner but rather at the conceptual level (Eriksson and Kovalainen, 2008: 162-164).

We presented this phase of the process in the concluding sections, while relating the theory to the literature and, like Leonard-Barton (1988), Burgelman (1983) and Gersick (1988), we found many confirmations and matches between our theory and other criminological theories in the literature.

5.6. EVALUATION

In grounded theory research, there is the phase of evaluation before the theory is finalized (Yüksel *et al.*, 2007). Eriksson and Kovalainen (2008: 158) agree that this verification phase is regarded as important in grounded theory research. Elliott and Lazenbatt (2005) summarize the credibility measures of some researchers for qualitative research in general (including grounded theory) in Table 5.5:

Table 5.5: Credibility Measures of Theories in Science

Quantitative Criteria	Qualitative Criteria	Universal Criteria	Original Grounded Theory	Strauss & Corbin’s Grounded Theory Criteria
Validity Reliability (Sheldon, 1994)	Credibility Transferability Dependability Confirmability (Lincoln and Guba, 1985)	Validity Relevance (Hammersley, 1992)	Fit Work Relevance Modifiability (Glaser and Strauss, 1967)	Two sets of criteria: - Research Process - Empirical grounding of findings (Strauss and Corbin, 1998; Corbin and Strauss, 1990)

Source: Elliott and Lazenbatt (2005: 49)

It should be noted that “[v]alidation is done by generating hypothetical relationships. Categories may be refined and reorganized in the completion of the theory”. In this process, “data becomes the theory” (Eriksson and Kovalainen, 2008: 164).

Some evaluation criteria are suggested for the evaluation of the grounded theory. For instance Glaser and Strauss (1967) and later Glaser (1978) included “fit, workability, relevance, and modifiability” (Eriksson and Kovalainen, 2008: 169) and Charmaz (2006: 527) brings forward the criterion of *saturation* to criticize it and offers more concrete criteria: credibility, originality, resonance and usefulness. According to Colls and Hussey (2009: 157) saturation is reached when “inclusion of new data does not add to your knowledge of the phenomena under study”.

According to Charmaz (2006: 528), ‘credibility’ has the aspects of systematic analysis development, sufficient data and the researcher’s familiarity, while ‘originality’ means new, significant, challenging, refining and changing the current ideas in the literature and resonance is drawing novel meanings and interpretations and finally usefulness refers to the practical aspects.

As Murphy *et al.* (1998) suggest, Hammersley’s (1992) criteria (validity and relevance) are universal for all scientific studies both qualitative and quantitative. These criteria of Hammersley (1992) are thus gaining more recognition and many research organizations recommend them for assessment of the theories (Murphy *et al.*, 1998).

Lastly, according to Eisenhardt (1989: 548), the resultant theory can be assessed by deciding “whether the concepts, framework, or propositions that emerge from the process are “good theory.” After all, the point of the process is to “develop or at least begin to develop theory” and she also accepts the criteria of Pfeffer (1982), namely, *parsimony, testability, and logical coherence along with the “strength of method and the evidence grounding the theory”* (Eisenhardt, 1989: 548). We opted for Eisenhardt’s (1989) criteria for the evaluation of the resultant grounded theory because we followed her procedures and built our grounded theory using case studies.

Hale *et al.* (2005: 92) writes that “[c]learly some theories are deemed better than

others, for theory has its own forms of granting legitimacy and relevance. Instead of asking how theories should be judged, one can ask what matters in theory. What matters to, and among, theorists?”

Following Eisenhardt's (1989: 548) criteria of 'good theory' and asking Hale *et al.*'s (2005: 92) 'what matters' question in a 'good theory' one can confidently claim that the resultant grounded theory of this research deserves the label of 'good' Eisenhardt's (1989: 548) theory, because what matters for criminologists working on financial white collar crime is;

- (i) a 'rationality based' theory (see Chapter 3) which is free from the fallacy that the crime follows opportunity (see Chapter 4),
- (ii) a 'rationality based' theory which does not automatically assume crime motivation (see Chapter 6) but explains the process of increasing/decreasing levels of crime motivation.
- (iii) a theory of crime which does not neglect earlier theories' 'scientific' research results and tries to find a way of including their findings in its own construct.
- (iv) A theory not of assertions, claims, arguments, but processes,
- (v) A theory which takes the greater and immediate environment into consideration in a flexible way to accommodate differences
- (vi) A theory which is not in conflict with 'change', change in financial circumstances, change in behaviour, change in opportunity, change in law, society, security measures etc.
- (vii) A theory free from static discretionary characters of crime which does not label people with certain sustained characteristics but is aware of the fact that characteristics and thus criminality can change and the criminal in the final analysis *may decide not to be a criminal*.

The grounded 'theory', as a result of this research, deserves to be called a "good" Eisenhardt's (1989: 548) theory because it fulfils the 'what matters' Hale *et al.*'s (2005: 92) question for the criminologist.

5.7. LIMITATIONS AND DIFFICULTIES

This section aims to identify the limitations and difficulties faced during the conduct of this study in order to provide a better contextualisation.

5.7.1. Reaching the Offender: Impossibility of Collecting Primary Data

The subject of this study is white collar financial criminals, who are the most powerful criminals on earth. However, it is hard to reach them, speak with them, let alone interview or question them on the probabilities of committing certain crimes that sometimes “exceed one trillion dollars⁸²” (Schlegel and Weiburd, 1992: 195). This is why collecting primary data was the main limitation of this study. If we could obtain enough primary and original data from truly white-collar finance criminals, we could have reached a grounded theory with better “saturation”.

5.7.2. Obtaining the Data

While it was intended to conduct empirical analysis through quantitative data, quantitative data about financial crimes are also very scarce. This is indeed very frequently mentioned in the literature, as white collar crime figures in general are either not recorded at all or not available to the researchers. They are not publicized, unlike street crimes.

In this research, we also tried to collect comparative statistical data, but we eventually realized that among all the databases that publish comparative crime statistics financial crimes are either completely absent or very scarce.

According to Reichel (1999: 37) there are four main sources of comparative crime databases available for researchers which are:

- (i) Interpol,
- (ii) United Nations (UNODC),
- (iii) Comparative Crime Data File,
- (iv) Correlates of Crime.

In addition, for the European statistics there is a fifth source, “The European

⁸²For Savings and Loans fraud in the US which is equal to the total military budget of the US for 2012 (White House, 2012).

Sourcebook of Crime and Criminal Justice. And for the socialist and Islamic countries not only crime related data but even very basic data such as population are hard to get or do not exist at all” (Taylor and Teaching Company, 2008).

However, some of the existing sources – despite the fact that they do not really contain substantial financial crime data - are not even available to the researchers. For instance we received the following message from Interpol when we attempted to obtain comparative financial crime data, we received a negative but indicative note from Interpol (the message can be found in Appendix B). Nevertheless, Interpol announces on its website that they are collecting information on financial crimes under the following titles, only one of which is in the spectrum of this research (financial fraud):

“INTERPOL’s chief initiatives in the area of financial and high-tech crime focus on:

- Payment cards
- Money laundering
- Intellectual Property Rights (IPR) Programme
- Counterfeit currency & Security Documents
- New technologies
- Financial fraud ” (Interpol, 2011)⁸³.

All the same, following Interpol’s and Reichel’s (1999) advice, we turned to UNODC who publish statistics under the title of *UNODC Crime and Criminal Justice Statistics* in the following areas: homicide, assaults, sexual violence, robbery, kidnapping, theft, motor vehicle theft, burglary, drug-related crime, trafficking in persons, and illicit trafficking in cultural property. It should, however, be noted that none of these are financial crimes. Therefore, we could use UNODC to show the general crime inclination only.

The third option for comparative crime statistics would be *Comparative Crime Data File* published by National Criminal Justice Reference Service, US, which “have been collected for five crime categories: homicide, rape, assault, robbery, and theft” since 1977 (Archer and Gartner, 1977), but these crime categories are not among the comparison criterion of this research either.

⁸³ In 2013 the list even excludes IPR and new technologies.

The last option is then, *Correlates of Crime* data but “[t]he sample, however, does not include non-market nations such as the Soviet Union and China” (Bennett, 1989: 1). *Correlates of Crime Data Set* presents data for the following countries: Australia, Austria, Brunei, Burma, Canada, Chile, Cyprus, Denmark, Egypt, *England/Wales*, Fiji, Finland, France, Germany(W), *Hong Kong*, India, Indonesia, Israel, *Italy*, Ivory Coast, Jamaica, Japan, Kenya, Korea, Kuwait, Lebanon, Libya, Luxembourg, Malawi, *Malaysia*, Morocco, Monaco, Netherlands, New Zealand, Nigeria, Norway, Peru, Philippines, *Scotland*, Singapore, Spain, Sri Lanka, Sweden, Syria, Tanzania, Taiwan, Turkey, *United States*, West Indies, Zambia. Countries in italics are the cases examined in this research. Besides, *Correlates of Crime* data is on the following crimes only: homicide, theft (major and minor) and fraud, which again are not white-collar crimes.

Due to these limitations on accessing comparative data, we use discrete, separate, standalone data and try to infer a comparative picture of the financial crime in different financial systems in fitting it into the grounded theory developed by this study.

As Burke (2006: 43, *emphasis added*) argues, many crime prevention practitioners accept that “crime is an outcome of the opportunity to offend” and “[r]egardless of offender motivation, removal of that opportunity; it is argued, will reduce the incidence of crime” in the UK.

Since we cannot compare crime figures by using the quantitative crime data, because there is no comparative financial crimes data for our cases and because data is very hard to get, then, we may compare our cases in an indirect way, that is, by using qualitative data, and we did so.

5.7.3. Page Limit

The second most important constraint for this research is the word limit, in particular in relation to the nature of this research. We studied ten countries, four economic and financial systems from various angles, it is not easy to analyse all these cases within a limited space as it involves getting rid of much of the data and presenting them in a relatively limited space.

5.7.4 Time Limit

And finally, for grounded theory researchers the allocated time for the research is never enough because the theory must be ‘saturated’. Despite spending a long enough time, we still think that saturation of our grounded theory can be reconsidered, but we may appease ourselves that theories must be ‘parsimonious’ as well.

5.8 CONCLUSION

Now that all the details of the methodological issues with our research are explained, our theoretical framework can be explained. In order to accommodate readers who are not familiar with the formal coding procedures of the grounded theory method, we have provided a rather long introduction to the theoretical framework and put the development process of the theory in codes in the appendix. In the initial parts of the following chapter, we have tried to show all important links of the upcoming theoretical discussions with the relevant arguments of the social sciences literature in general. Since criminology is truly multidisciplinary, it is likely that readers who have expertise in certain scholarly areas may feel alienated. The researcher has both tried to show the immense multi-disciplinary nature of the complex phenomena studied and wanted to refer to the existing literature from related fields which confirm the upcoming arguments of the research, so that the reader will sustain reading motivation, by eliminating the idea of apparent irrelevance.

Chapter 6

THEORISING FINANCIAL CRIMES IN COMPARATIVE ECONOMIC SYSTEMS: AN ATTEMPT IN GROUNDED THEORY

6.1 INTRODUCTION

In this first analytical Chapter, the grounded theory of financial white-collar crime (FWCC) is presented, which, as a theory, takes the individual and his/her inner motivational mechanisms, elaborates them with many authentic codes and relates the inner world of the individual to the immediate and distant environment both spatially and in the time dimension.

The formal, inductive and positivist coding process and full details of the codes are presented in Appendix A. It should be noted that only important codes are explained in a conceptual way. Readers who lose the connection between various terms may refer to Appendix A, which may provide better comprehension, because the codes appear according to the order of the knowledge generation process.

‘Theory’⁸⁴, according to Vaus (2001: 5) is an attempt to answer the ‘why’ question and this research tries to answer the following ‘why’ question: ‘why do people commit financial, white-collar crime?’. As indicated in Chapter 3 though, this is not the initial intention of this study. The initial intention is to answer the following question: ‘which financial systems are the most vulnerable to and which ones are the strongest against financial crimes?’. However, to reach this latter question, the former question has to be answered first.

⁸⁴*Post factum* theory (Merton, 1968) or *ex post facto* theorizing (Vaus, 2001: 5).

Nevertheless, the best available theory, that is, ‘rational choice theory’ (RCT), was not suitable to answer this research question. Then, we took the responsibility of fixing this comparison problem in order to reach a more capable theory, which would not only enable us to answer our initial question but also let us contribute to the theoretical developments in finance, criminology and related literature. Since we already knew which theory was the best available theory, and which parts were incapable of comparison, we decided to develop the earlier best theory, instead of trying to build a completely new one.

First of all, such an efficient theory must be grounded on the data and be applicable to the middle-range problem of financial crimes. This is why we decided to use grounded theory as a method of building theories. According to Eriksson and Kovalainen (2008: 154; emphasis added) grounded theory is equipped “for curving out the inbuilt *middle-range theory*”, which refers to the theories “that are delimited to specific aspects of social phenomena, instead of broad, macro-level theories that deal with abstract entities such as society or the economy”. Our subject area efficiently fits into this framework, because the models we are discussing are not as specific as ‘whether certain crime rates, in city X, are rising or not’ nor as general as the ‘general theory’ of crime. We are dealing with certain financial, white collar crimes in certain time periods only. Nevertheless, this does not mean that further studies can improve and expand the resultant grounded theory into a generalizable theory of crime.

According to Strauss and Corbin (1998: 12, emphasis added), in grounded theory research, “a researcher does not begin a project with preconceived theory in mind (unless his or her purpose is to *elaborate and extend existing theory*)”. Likewise, this research develops the best available theory by using some of the readily available, obvious codes of rational choice theory. Colls and Hussey (2009: 158) argue that in certain fields of the social sciences, “there is continuing dissatisfaction with using priori theories” and “one *response* has been to encourage the use of grounded theory methodology”, because while generating the new theory, “it is important not to impose boundaries set by prior theory” (Colls and Hussey, 2009: 157, emphasis added); this is why we were very critical about all the pieces of RCT in order not to be directed and/or limited by this priori theory.

RCT presupposes ‘motivated offenders’, which implies that when people come up

with *net positive opportunity* of financial crime⁸⁵, according to the theory, they commit crime; but RCT ignores the fact that those offenders operate in a *culture* and cultures may have *significant differences of opportunity perception*. However, it is not rational to exclude these *perceptual differences*, while calculating *rational* choices. One thing rational for a specific person, in a specific cultural and physical environment, may not be so for another person. For instance, socialism does not assume an automatic motivation in relation to financial opportunity, because the society and the individuals forming it are supposed to be acting in solidarity, which is against the self-interest in the face of the illegal opportunity that belongs to others. This and similar other criticisms of RCT are provided in Chapter 3 in detail.

This research, inevitably, will touch at times on social dimensions in depth but only for the sake of analysing certain agents in these cultures, namely, ‘people of state’ (*i.e.* VIPs, politicians, bureaucrats, administrative staff), *the corporate people* (*i.e.* CEOs, managers, traders, brokers *etc.*), *individual professionals* (*i.e.* individual fund managers, traders, brokers *etc.*) and commercially important people (CIPs) as financial white-collar criminals.

These groups’ behavioural norms differ⁸⁶ and they may also commit financial crimes in groups and as crowds⁸⁷ (*e.g.* state crime against other states). Nevertheless, our research is limited to the ‘individually committed financial crimes’ despite the fact that it may give some hints for the others committed in groups and as crowds. Focusing on individuals also restricts our research and ties it into the term middle-range theory.

There are four main components in this study and the first three of them come from the RCT: ‘*motivation*’, ‘*targets*’ and ‘*guardians*’. We include the ‘*environment*’ in this group of the main concepts because the different environments of the different financial systems affect the crime rates. Nevertheless, this is only a shallow

⁸⁵ This is a code built by our grounded theory and it stands for an opportunity of financial crime which yields a positive outcome after all the relevant calculations of a specific offender in a certain environmental setting.

⁸⁶ Because their environments and the roles, power levels, relations, expectations, needs *etc.* of the individuals in these environments differ.

⁸⁷ It is a well-known fact in psychology that behaviours alone are different from behaviours in groups and in sociology that behaviours of crowds are different from the behaviours of both individuals and groups and all of these differences are important while researching financial systems in a comparative manner.

explanation because all the unearthed details of earlier terms and their relations are analytically and dynamically shown by our resultant grounded theory.

To give a few examples, we may ponder about these main components. When we do that, we realise that the motivation *per se* is an abstraction of some other qualities of the *offender*, as without an offender there would be no motivation to commit crime. Then we may deduce that if it is necessary to research some characteristics of the offenders (*e.g.* motivation) maybe others are needed as well (*i.e.* *amotivation*⁸⁸). These are discussed later on in this Chapter.

In a similar vein, *targets* are owned by someone or some institution with various different attributes. This is why the characteristics of *victims* are also important for our theory, because the variations of these characteristics increase or decrease the probability of the financial crime being committed. So, targets can also be taken as a quality of the victim, that he/she owns less or more of valuable things. Within this perspective, one can see the guardians as either one of the qualities of the *environment* or the quality of *others* surrounding the crime.

This is not a mere choice of agent-based versus concept-based comparison, because RCT's concepts are in no way complete about crime. RCT uses a mixed set of concepts in this regard, such as guardians as a code of agents and motivation as a conceptual code.⁸⁹

In any case, we analyse, *vulnerability, motivation, guardians and opportunity* in our study because these are the most important qualities of *environment, offenders, others and targets* respectively. In other words, these concepts are the cornerstones of the theoretical attempt that is made in this study through grounded theory. Nevertheless exclusion of other qualities of these agents would decrease the operability of our theory with the shortcoming of parsimony concerns of course. In our study, we treat the characteristics of *offenders, victims, and environment* as a separate concept and relate their characteristics to the grounded theory but for the sake of parsimony we

⁸⁸ Abhorring material pursuit. This was common in pre-Enlightenment era Europe and India in both past and modern times for instance.

⁸⁹ We may consider 'target' as conceptual as well if we perceive it as 'opportunity' but then we coincide the equal definitions of two different variables (motivation and target) in this theory because many RCT theoreticians argue that opportunity creates its motivation.

exclude the effects of these characteristics in the formula and the further discussion about it.

Let us begin with the analysis of *motivation* first because different people who realise the existence of the same opportunity are not motivated the same way and this is why crime begins with motivation⁹⁰.

Our analysis of all criminological theories, that claim biological, social, psychological, gender, rational and similar other discretions looks for some characteristics of the offenders that causes crime *motivation*⁹¹. In this sense, , causes of motivation vary but the direction, the result does not. All criminological theories agree upon the existence and importance of motivation⁹². This is why it makes sense to begin with motivation and look for strong ties between *rationality* and *motivation*. This is indeed what this research observed in the course of the study: financial crime emerges as a continuum of motivation, usually of an extreme and/or urgent motivation. Nevertheless, the explanation is far more complex than these simple and quick descriptions.

It is necessary to emphasise that our theory's most important distinction is its *non-discretionary* nature. Many, if not all other criminological theories look for certain character traits and claim a profiling process which looks for these character traits. This simply means that people with positive traits are either criminal or very vulnerable to crime. Our theory does not look for any kind of such character trait. Instead, it simply suggests a dynamic process through which anybody can be a criminal or can be free from crime if and when their circumstances change.

As for 'motivation', it is about one specific component of economic and financial systems, namely, 'the participant' (or financial agent), and it is described as "a function which associates with each course of action *the utility of its outcome* to him

⁹⁰ This does not mean that we produce a theory of discretion. If the development of different levels of motivation is built in a very complex way and by the effects of various variables the resultant theory may not be a discretionary one.

⁹¹ In RCT, bluntly, 'opportunity' is the cause of motivation. In this sense, RCT is a discretionary theory with one distinction: it looks for discretion not at the offender but at the environment.

⁹² From the point of view of complexity theory, since motivation is the focal point of all explanations of crime, 'motivation' could be said to be the strange attractor of the complex system of crime and its dynamic, complex environment.

[emphasis added]” (Bornstein, 1971: 4). Such motivations affect the participants’ ‘responses’ to these signals and among the responses are ‘criminal responses’.

As Eriksson and Kovalainen (2008: 155) point out, “the grounded theory approach is not a mere method or technique for qualitative data; rather, its application in research has more ambitions towards *theory development* than empirical analysis”. The discovery of grounded theory in the 1960s by Glaser and Strauss (1967) contrasted it with “the logico-deductive approach, by arguing that, in principle, theory testing through hypothesis setting alone ignored the whole process of theory generation, and that *variable-focused analysis was truly insensitive to the real-life problems*” (Eriksson and Kovalainen, 2008: 155, emphasis added).

In grounded theory, the resultant “theory evolves during actual research and it does this through continuous interplay between analysis and data collection” (Strauss and Corbin, 1988: 158). While presenting the results of our grounded theory we decided to put them into the order of chronological emergence in the theory building process. This way of presenting the results would hopefully let the reader observe the whole theory building process as it evolves. Yet, the formal coding process is depicted away from the explanatory chapter (this Chapter) in order not to make the reader bored. Let us now present the resultant theory excluding runtime processes of data collection and analysis⁹³.

In this research the analysis of crime disposition in the realm of rational choice is presented with the assumption that potential offenders choose between the best alternatives of legal and illegal activities. At the time of those calculations, people take the following parameters into consideration (Becker, 1968):

- (i) legitimate opportunities of earning income and the amount of reward these opportunities offer
- (ii) the illegitimate opportunities of earning income and the amount of reward these opportunities offer
- (iii) probability of arrest
- (iv) likely punishment

⁹³ Details of this process could not be included in this text because they are colossal in size, but they can be electronically submitted on demand.

Later on, rational choice theorists included ‘motivation’ in these measures. The theory assumes that the financial offenders act on a one dimensional utility function: material utility. Nevertheless even a quick gaze at the literature is enough to convince many researchers that material utility is not the only available utility in this world. Thus the theory, probably because it inherits many of its arguments from the economics literature, lacks some important aspects of the overall discussion⁹⁴ about delinquency.

Utility is a very important concept in our study, because we are assuming that people are rational in the sense of maximising their utilities. Utility and crime can be considered to be the intersection in this regard between economics and criminology and many profitable scholarly products have flourished from this intersection. Jeremy Bentham in the 19th century and Gary Becker in the 20th century are the representatives of such a field of intersection.

Bentham theorized that people seek pleasure and happiness and try to avoid pain. When talking about pleasure and pain, Bentham not only thought about physical pain but various other forms of pains like religious, ethical, moral, political pains in different intensities, duration, certainty and proximity (Bentham, 1982; Einstadter and Stuart, 1995: 48). We formulated these various kinds of pains (and pleasures) in three dimensions: *material, social and moral dimension*. Below, various dimensions of the utility functions are presented. The manifestations of these dimensions in various economic and financial systems are depicted in Figure 6.3 and distinguish different levels of emphasis on different dimensions of the utility function.

In the case of more than one utility dimension, we have to realize that individuals do not usually try to *maximize* one single dimension of their utility function but *optimize* all three of them with a certain *weighing* of the emphasized dimension.

In economics literature, utility ‘dimensions’ are constructed differently. According to Bentham for instance, utilities are decided by optimization of the various dimensions of ‘intensity’, ‘duration’, and ‘certainty’ of pleasure or pain (Spiegel, 1991). Based on

⁹⁴ The Eurocentric approach may consider other dimensions of rationality as not noteworthy but this does not help the research community while people with extreme ideologies prefer to act on such utility dimensions. Crime is not committable by solely Eurocentric people. If it were, then the current, one dimensional form of the utility theory would be enough to study crime.

this and similar ideas, the whole microeconomics literature is built and this is valid under this research. However, while using the term ‘dimension’ we mean a higher abstraction of pains and pleasures. This is indeed what the comparative nature of the study forces us to do.

According to Bentham, “pleasure and pain come in degrees or quantities and ... *can be juxtaposed and compared on a single measuring scale*” (Solomon and Stone, 2002: 423, emphasis added). When we mean *material* pains and pleasures (only one of the dimensions in this research) singlehandedly, this is possible and all calculations under the microeconomics literature are valid. Since the context is usually material in ‘economics’ we seldom make mistakes; nevertheless our theoretical findings suggest that better, more complex, more precise utility calculations and rationality measures are possible by using multi-attributes theory⁹⁵ in mathematics and other similar methods that allow more than one dimensional calculations in economics.

Under the Benthamian view, juxtaposing the ‘intensity’, ‘duration’, ‘certainty’, ‘proximity’, ‘fecundity’ and ‘purity’ of the pleasures and pains of earning US\$ 20 for a certain number of man-hours work with certain difficulties and conditions, such as the amount of time devoted, is possible and *rational* under certain conditions. Also, the eye or the arm of a certain person, for instance, is undoubtedly far more valuable than a US\$ 20 bill. Thus, a Benthamian rationality would rather lose the US\$ 20 bill to a gangster with a knife who threatens to stab it into the victim’s eye or arm. But under the moral utility dimension, for instance a Muslim, if the gangster with the knife kills the victim because he/she protects his/her belongings, according to the religious law, he/she goes to the paradise in exchange for the US\$ 20 bill and in the world remaining after him/her he/she is called a martyr and the family is known as the family of a martyr (the additional social dimension’s yield).

As is obvious in the example above, the qualities (not dimensions in the context of this thesis) of the material and moral dimensions are in conflict. For instance, the *duration* of the pleasure of the US\$ 20 bill is different in the material dimension compared to the moral dimension. The *duration* of the pleasure of the victim’s moral dimension in the case of *not* giving the US\$ 20 bill is infinite. On the other hand, the

⁹⁵ For further information on multi-attributes theory please see Keeney and Raiffa (1993) and Thurston (2006).

duration of the pleasure of the victim's material dimension in the case of not giving the US\$ 20 bill is the retainment of the US\$ 20 bill for another week until he/she spends it. Is the duration of pleasure of *not* giving the US\$20 bill in this case, one week or infinity?

It is clear from this and similar discussions that one utility function does *not* fit all the different cultures, societies, beliefs; but a multi-faceted utility is necessary in cross-cultural studies and for the precision in economics.

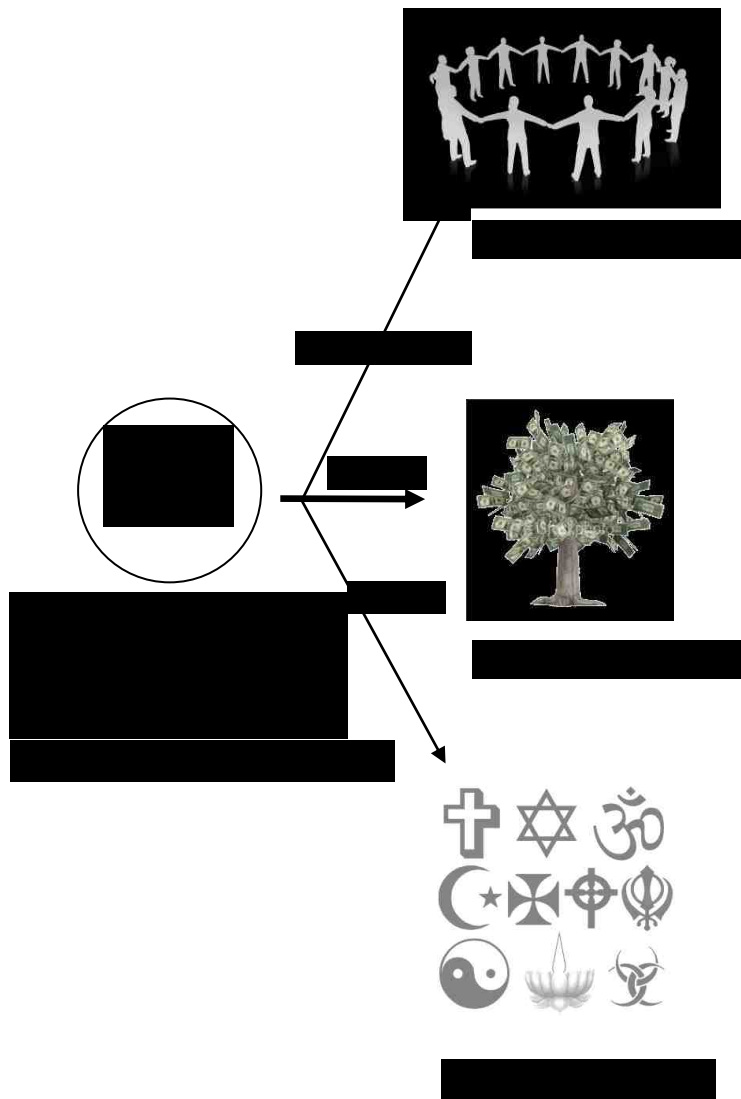
While 2 billion people⁹⁶ in the world have this belief system, and many more describe themselves as Christians, Judaist, Confucian *etc.* economics as a social science cannot make precise calculation by bluntly including them under one-dimensional linear measure.

Still though, in every one of three dimensions (*i.e.* material, social, moral), Benthamian *qualities* of utility, those are 'intensity', 'duration', 'certainty' and 'proximity', 'fecundity', 'purity' (Solomon and Stone, 2002: 423) are valid and when we state for instance 'optimizing' we mean a collective optimization of all of these Benthamian *qualities* of utility under one or more utility dimensions. In this sense, this research proposes a far more complex utility optimization calculation for the individuals.

It should be noted that if some or all of the utility dimensions are heavily dominated by a certain dimension, optimization usually, if not always, means maximization of that dominated utility. We may show the possible motivational choices of individuals in Figure 6.1.

⁹⁶ According to www.muslimpopulation.com

Figure 6.1: Possible Motivational Choices of Individuals in the Society⁹⁷



One should be aware that none of these dimensions are irrelevant to any individual⁹⁸ and that it is possible to be affected by more than one motivational dimension, but usually one dimension is dominant over others. This research assumes a materially-dominated individual *regardless of their social and moral environment*⁹⁹. Non-materially dominated individuals are not the subject of this research because relatively they are not as vulnerable to financial crimes as people with materially dominant

⁹⁷ .7, .1 and .1 do not add up to 1 because there may be other dimensions the research community is not yet aware of.

⁹⁸ For instance Hamburg and the Teaching Company (1997) explains how Soviet Communism tried to establish a spiritual love of the system and its leaders almost in a religious like fashion.

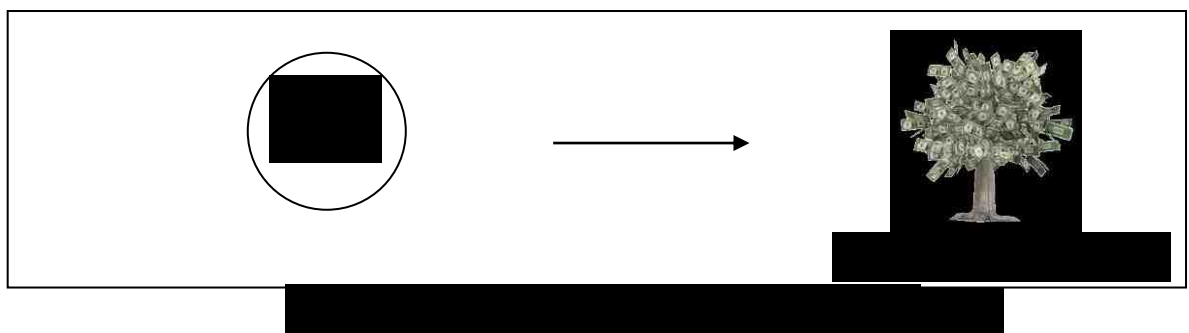
⁹⁹ Still, their recessive effects are compared in the following Chapter while answering the following question: “How can we put the financial systems into the order of financial crime vulnerability/strength”.

utility functions, but they may be vulnerable to other kinds of crimes such as political, social or violent crimes *etc.* Further research can be conducted on the rational choice under the influence of the socially and morally dominated utilities and the linkages between these dimensions. Then, a more comprehensive and generalizable crime theory may emerge.

For white-collar criminals for instance, material targets would be valued more than social and normative targets, and we could show this inclination of white-collar criminals in the depiction shown in Figure 6.2.

As depicted in Figure 6.2, financial white-collar criminals are materially dominated, regardless of the countries they live in. The effects of social and moral utility dimensions either can be disregarded or are not strong enough to substantially change the motivation of the individual against illegal material targets. Thus a single line, instead of three to denote other (i.e. social and moral) dimensions is enough to simplify the motivational choices of the would-be financial white collar criminal. Nevertheless, this is only a primitive, initial depiction of the motivation process; as the motivation process is revealed further in this Chapter, the complexity of the phenomenon ‘motivation’ is revealed too.

Figure 6.2: Individuals with Materially-Dominant Utility Functions

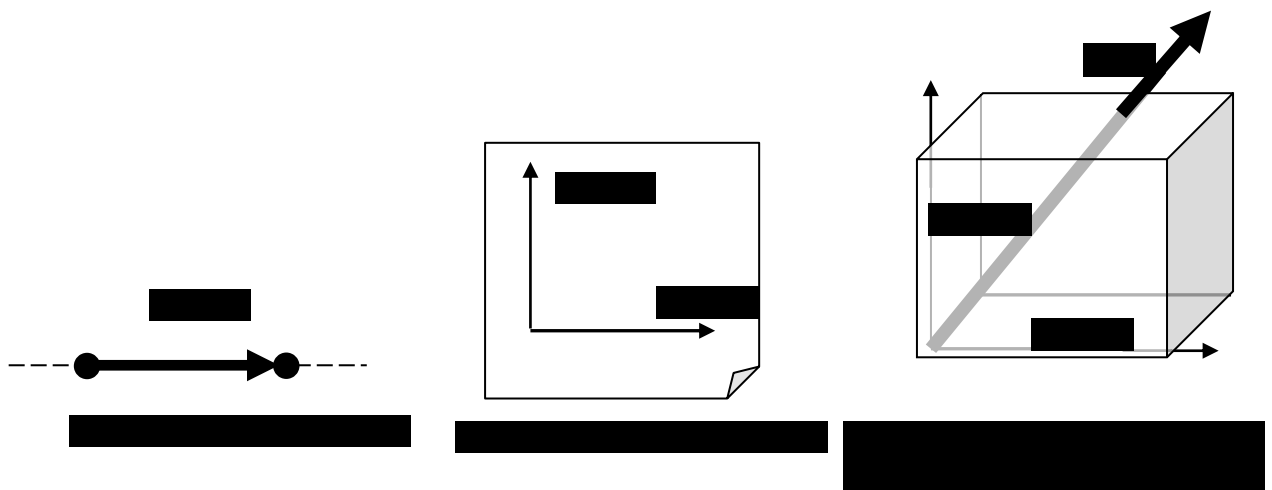


This research realizes that material utility is not the only utility people act on, but it is obvious that financial criminals, predominantly, act on material calculations. Thus, an alternative approach is used to imply that there are other possible utility functions.

Therefore, the terms, *dominant* and *recessive utility functions* are used. Financial criminals are then referred to as people who act in a *materially dominant* utility function, because when motivated, they approach material targets but are *partially governed by other dimensions' effects* as well.

Figure 6.3 depicts material (*mt*), social (*sc*) and moral (*mr*) dimensions. One of the most important distinctions between the utility dimensions is the quality of its *duration*. Material utility for a given individual has a possible duration of 100 years at most, while social utility transcends the human life-time and spreads through generations of many (*e.g.* for Alexander the Great 24 centuries) and the moral dimension transcends humanity and even the universe. Nevertheless, there have been some cultures in the world who believed that material wealth would transcend life on earth, as they buried their wealth with them to use it in the afterlife. Thus, anthropological applications require further awareness. Figure 6.3 also depicts that the term utility 'dimension' used in this research is not like the linear utility dimension of the Benthamian view, where all the dimensions positive (pleasure) and negative (pain) aspects can be linearly juxtaposed (Solomon and Stone, 2002).

Figure 6.3: Various Dimensions of the Utility Functions¹⁰⁰



Thus, when we realize that people are *not* acting *rationally* in a materially expected way in materially dominated cultures, it is probable that those people are not under the

¹⁰⁰ Inspired by Bentham (1982) and Einstadter and Stuart (1995: 48).

dominant effects of the *same* dimension. They could be under the dominant influence of social and/or moral dimensions. People committing crime despite capital punishment and career criminals in materially-dominant systems can be examples of such criminals. It is highly probable that conventional mechanisms for dealing with crime in a specific system with certain dominant utility functions are not effective for such criminals because the punishments are almost invariably delivered from the *same* dominant utility dimension (*i.e.* material). For instance, governments seldom announce socially and morally-dominant punishments, as if assuming that there can be no individual who would rationalize committing crime in others' worlds¹⁰¹.

Now that a crucial exclusion of very important paradigms in classical RCT are shown to prove the need for an improved theory based on rational choice, we can explain the details of our solution to satisfy this necessity, to fill the gap between classical RCT and a theory that is capable of comparing extreme cases based on rational choice.

6.2 MOTIVATION AND OFFENDERS

'Motive' is developed from a Latin word 'movere', which basically means 'move'. From a linguistic point of view, what we are focusing on is what moves people to reach a criminal financial gain. Motivation is, hence, "the process involved in the initiation, direction, and energisation of individual behaviour" (Geen, 1995: 38) "either eagerly or reluctantly" (Miller, 1962: 249).

Studying motivation is indeed studying the 'why' of behaviour and this is tantamount to the whole discipline of psychology (Gross *et. al.*, 2004: 331) and criminology. This is beyond the reach of our study. However, there are some important, comparative aspects of it which are sufficient to satisfy the requirements of rational decision making.

Earlier rational choice theorists did not focus on motivation, but took it for granted. Actually this is obvious from the discourse of the RCT because '*motivated* offender' is a commonly used phrase in the literature and presumes an already *set* offender.

¹⁰¹ Please note that these theoretical explanations have many implications for the development of modern law, criminology and penology. Similar ramifications exist throughout the text about the motivations theory, need theory, utility theory, stratification theory, theory of self and some other theories.

Indeed, this is exactly what Ekblom (2001: 264) stated while discussing the RCT:

That [it] does not rely on past improvements in society, treatment regimes for offenders or early interventions in children's socialisation to reduce current criminality; or on the sheer aversive intensity of sanctions anticipated at some remote time in the future to deter¹⁰² or incapacitate present offending. It does *not directly aim to change offenders'* [emphasis in original] *propensities or motives for crime* at all. It takes these as *given* and, proceeding from an analysis of the circumstances engendering particular crimes, it introduces specific changes to influence the offender's *decision* or *ability* [emphasis in the original] to commit these crimes at given *places* and *times* [emphasis added].

Crime motivation and deviance, hence, must be discussed because of the following reasons:

(i) the role of the 'motivation' has been expanded at the latter stages of the theory (Burke, 2006);

(ii) Even if the crime motivation can be taken for granted, it may differ among various financial systems and this surely affects criminality, which is something this thesis should address;

(iii) Assuming a 'motivated' offender is actually assuming a 'bad' human nature, which is a debated issue in modern criminology;

(iv) A better analysis and formulation of the motivation is needed in order to comply with the compared system's different specification (*i.e.* allowing both good and bad human natures in different situations). This is needed because some of the financial systems do not assume a 'bad' human nature, thus leaving us with no choice but to discuss the comparative crime motivation.

(v) Indeed this is also required for the internal validity and consistency of the theory because as the second main theme of this chapter we compare the four attributes of 'suitable targets', namely, the value, inertia, visibility and accessibility of targets and the first attribute, *value* (of a crime target), is described (*i.e.* by Burke, 2006) as a *subjectively* calculated rational perspective. We find it neat to

¹⁰² In a way, one can argue that **rationality based theories' arguments are in conflict** because deterrence theory assumes a motivation that can be affected and manipulated by the probable future punishment but other RC theories assume a given motivation.

discuss this subjectivity under the first theme of this Chapter, under ‘motivation’.

This *subjective* decision making of financial criminals is most of the time perceived as either individual or institutional subjectivity in the finance industry. Nobody can deny that institutional, social and psychological environments in a business affect the individuals they employ.

However, financial crime motivation is all about individuals and not institutions or political positions; although political and commercial institutions can, like normal human-beings, be prosecuted and sentenced in the modern world, it is always the individual who make real decisions, including deviant decisions.

This is indeed something central to white collar criminality (WCC) as Sunderland (1983) sees it. Because, he defines WCC as “a crime committed by *person[s]* (emphasis added)” who are “powerful business and professional men” (Sunderland, 1983: 7). It’s rather interesting that he uses a gender specific discourse. Such a discourse is probably preferred to give a profile of the WC criminals, because the word ‘powerful’ fills in such a profile too. Similarly, the usage of ‘professional’ along with ‘business’ can be interpreted as the intent to include male politicians and bureaucrats in the context.

It is clear from his writings that Sutherland (1983) is not discussing the artificial personality of corporations, while writing about 'corporate' crime, but the real personality of businessmen. At the time of a conference titled 'crime of corporations' in DePauw University, Tonybee Clup in 1948 he explained his ideas (Sutherland, 1983: 7):

... personal and social pathologies play no essential part in the causation of crime. I believed that this thesis could be substantiated by a study of the violation of law by businessmen. Businessmen are generally not poor, are not feeble-minded, do not lack organized recreational facilities, and do not suffer from the other social and personal pathologies. If it can be shown that businessmen, without these pathologies, commit many crimes, then such pathologies cannot be used. "I have used the term white-collar criminal to refer to a person in the upper socioeconomic class who violates the laws designed to regulate his occupation", in the sense in which it was used by President Sloan of General Motors, who wrote a book entitled *The Autobiography of a White Collar Worker*.

In this sense, individual human ethics and individual motivations are more important

for our study than corporate ethics. Thus, we should make sure that the ‘motivation’ of the *motivated* offender always comprises human elements and human behaviour. Even for institutional settings, criminological analyses of WCC and financial crimes should consider an individual crime motivation.

As for the theory of motivation, like RCT, our research takes one of the best available theories of motivation and uses it as the base explanation. Afterwards we improve this theory by means of grounded theory methodology and therefrom a dynamic, multi-layered depiction is developed along with many related codes of motivation.

There are mainly three types of motives in psychology: biological, sensation-seeking and complex motives. Complex motives are learned motives and are “aroused by psychological events” (Gross, 2004). Among the complex motives are: *need for achievement, need for affiliation, need for power, need for approval*. There are many psychological and criminological theories that have something to say on these complex motives.

Since we limit ourselves to WCC only, we exclude the biological, sensation-seeking motives which may be useful to research on non-WCC such as thievery, rape, murder and then may be integrated into our theory by further research via filling the gap at the downstream needs of Maslow’s (1954) hierarchical needs.

We continue, hence, with the analysis of complex motives. Psychology provides us with the following theories of motivation that encompass complex motives: instinct theories, drive theories, optimum level of arousal theory, expectancy (incentive) theory, opponent-process theory, Maslow’s theory and Freud’s theory.

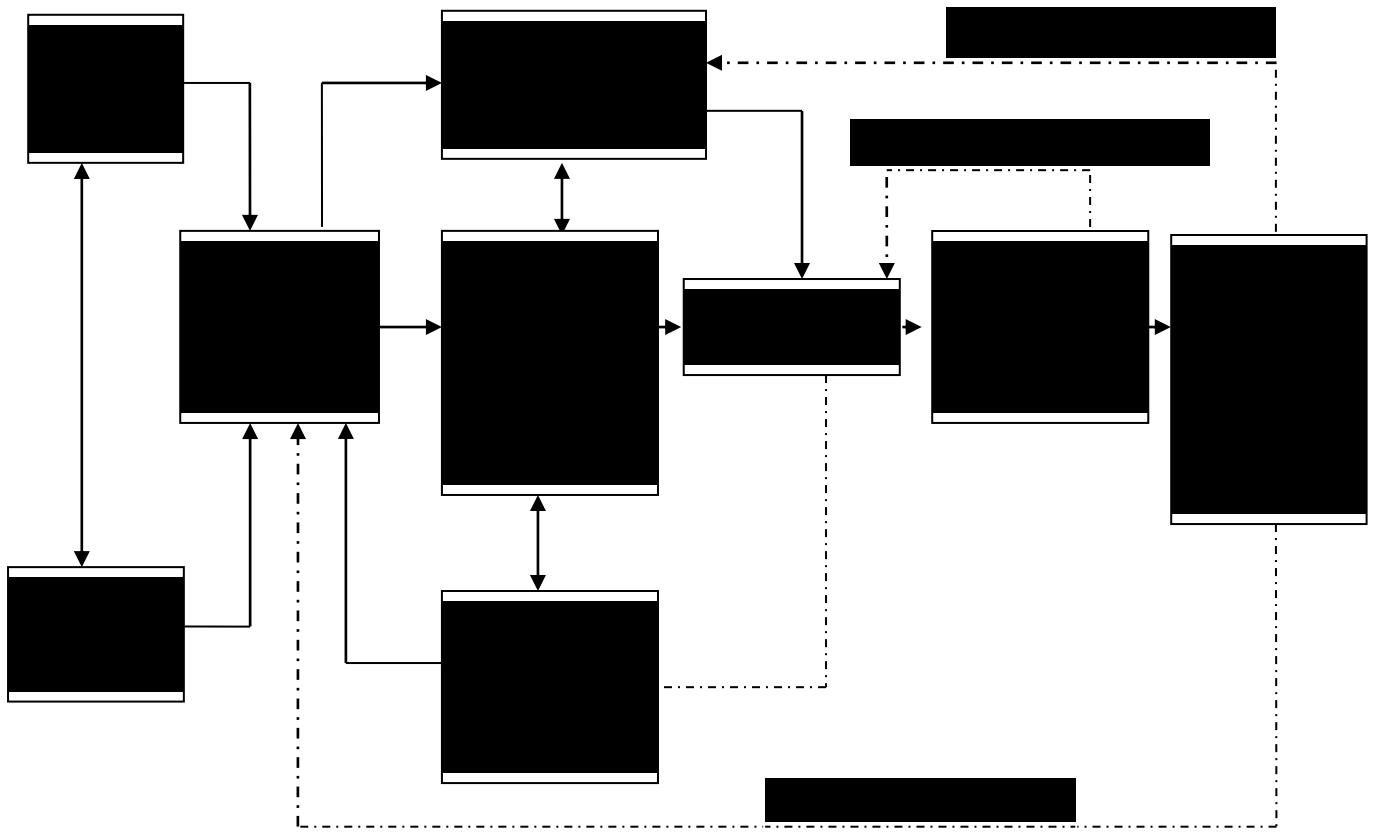
Expectancy (incentive) theory is the fundamental psychological theory of RCT because it argues that “the expectation of a *desirable goal* motivates us to perform a behaviour. The expectation of an *undesirable goal* motivates us not to perform a behaviour” (Gross, 2004, emphasis added). Theory also suggest that “*expectations* and *values* affect whether a behaviour is performed or not” (Rotter, 1966, emphasis added) and that successful experiences in the past, produce higher expectations while *unsuccessful ones produce lower expectations*. Figure 6.4 depicts the important role *expectations, goals* and *re-evaluation* play in motivation with all other relevant components of it.

In a similar vein, Williams (1997:197) argues that the process of rational thinking in cognitive science is basically, the “driving or compelling mental forces in the mind”. Expectancy theory is consistent with cognitive science as well and if we use it, we may bring the reliable findings of cognitive science to our theory (by further research) and since we apply our theory to financial crimes, expectancy theory is also completely parallel to the arguments of microeconomics.

It should be noted that the psychological view of Gross (2004) is a binary one, because it suggests something (desirable goal) and its negation (undesirable goal). This desirable/undesirable dichotomy is also consistent with the modified ‘carrot and stick’ psychology and incentive mechanism of market economies. This is not surprising to observe because both of these theories are Eurocentric, and from, by and large, the same philosophers, although coming from different disciplines.

We use Figure 6.4 of Rollinson *et al.* (1998: 149) as “[a] priori specification of [our] construct” (Eisenhardt, 1989: 536) on motivation and elaborate it through further reasoning and comparative directive.

Figure 6.4: Motivation Process

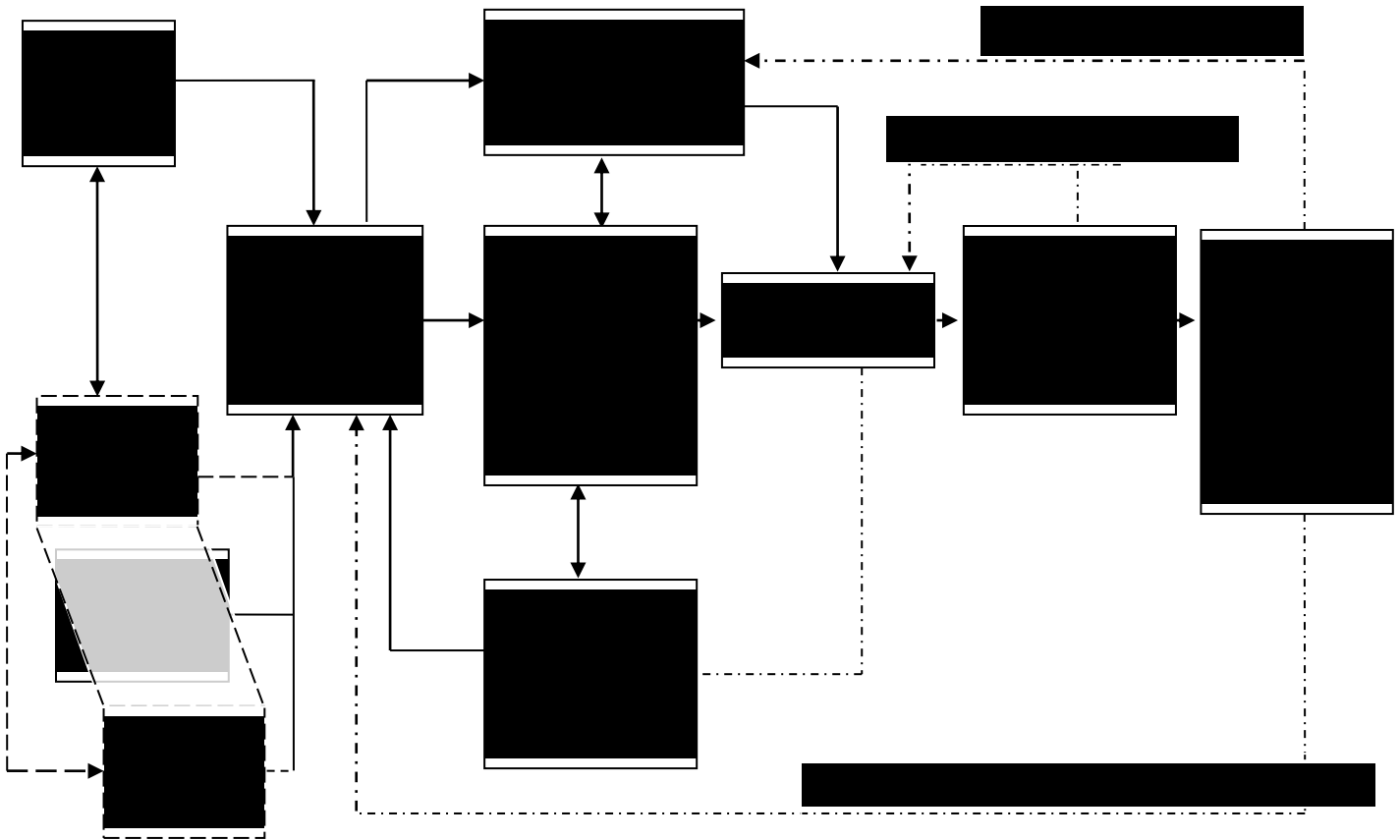


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‘Actual self’ in Rollinson *et al.*’s (1998: 149) model can be renamed as the “*perceived*” actual self when we discover the variations of the actual self. The adjective, ‘perceived’, assumes the existence of a ‘*real*’ *actual self* and apparently there is a discrepancy between those two. This gap between ‘perceptual’ and ‘real’ actual selves is indeed the error of one’s understanding of him/herself or an unreal expansion, exaggeration (or downgrading) of his/her real self. In short, our research suggests that individuals sometimes fail to correctly appraise their position in their environment. Moreover they may also set unrealistic and unlikely ideals just as they set such fears for their future life. Various codes of these errors are also presented in this chapter.

With new codes, these three components, *ideal self*, *perceived actual self* and *real actual self* are almost identical to the *id*, *ego* and *superego* of Freud respectively now and may help bring all the psychological concepts and related discussions about deviance into our theoretical framework. Lindzey *et al.* (1988: 383) describe the relationship between id and superego as a “battle” for “dominance of ego” or perceived real self in our grounded theory. This rivalry too, matches the modified version of Rollinson *et al.*’s (1998: 149) motivation model depicted in Figure 6.5 because *perceived self* can be described as something that is being stretched both by our idealized self and actual self, the first, to reach a potentially better place in the society and the second to show the reality and to calm down, to slow down the impulses. Stevenson (2003) provides a book size story of this battle.

Figure 6.5: Rollinson *et al.*'s Motivation Model with the Addition of Real Actual Self (with its Relative Positions¹⁰³)



For now, we can argue that as the gap between our actual selves (perceived and real) get wider, the capacity of the agents to receive more insults, dangers, dilemmas, conflicts rise and thus we perceive more attack from outside.

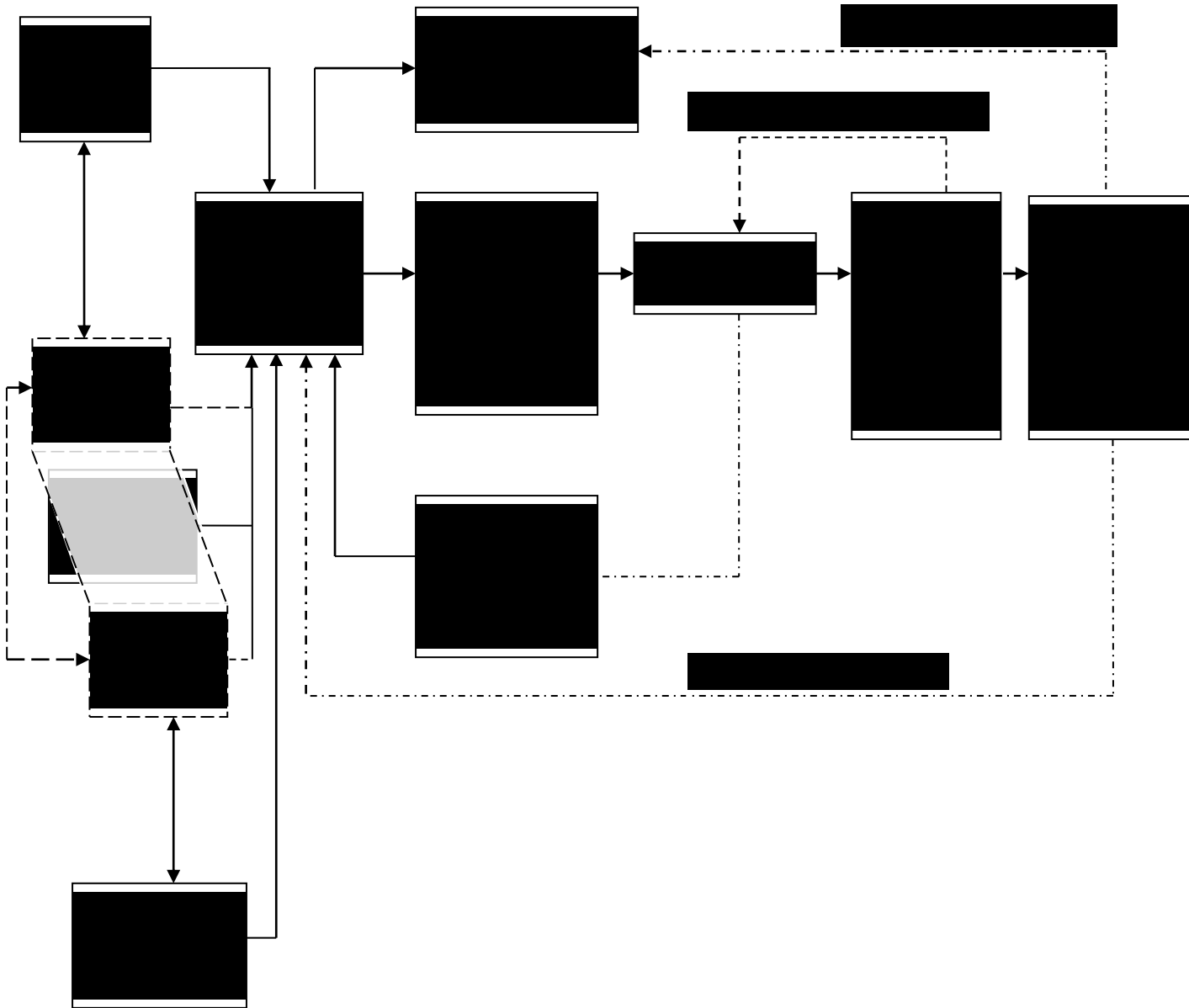
In the context of financial crimes, if the perceived self is above the real self, perceived loss of dignity, power, status could be mentioned among such attacks, which eventually may really affect crime propensity because such attacks may remind the would-be-financial-criminal of yet another source of lacking, scarcity, deprivation from his/her ideal self.

The above motivation process in Figure 6.4 deserves praise for a succinct presentation of the process but also deserves criticism for representing one type/level of motivation

¹⁰³ Relative to 'Real Actual Self'

only. For the sake of symmetry and balanced representation of the human behaviour (because not all people are positively motivated, some are either not motivated at all or depressed, negatively motivated) another code to balance the ideal self is necessary. We coded this concept as ‘feared-self’ as depicted in Figure 6.6.

Figure 6.6: Rollinson *et al.*’s Motivation Model with the Additions of Real Actual Self (with its Relative Positions¹⁰⁴) and Feared Self

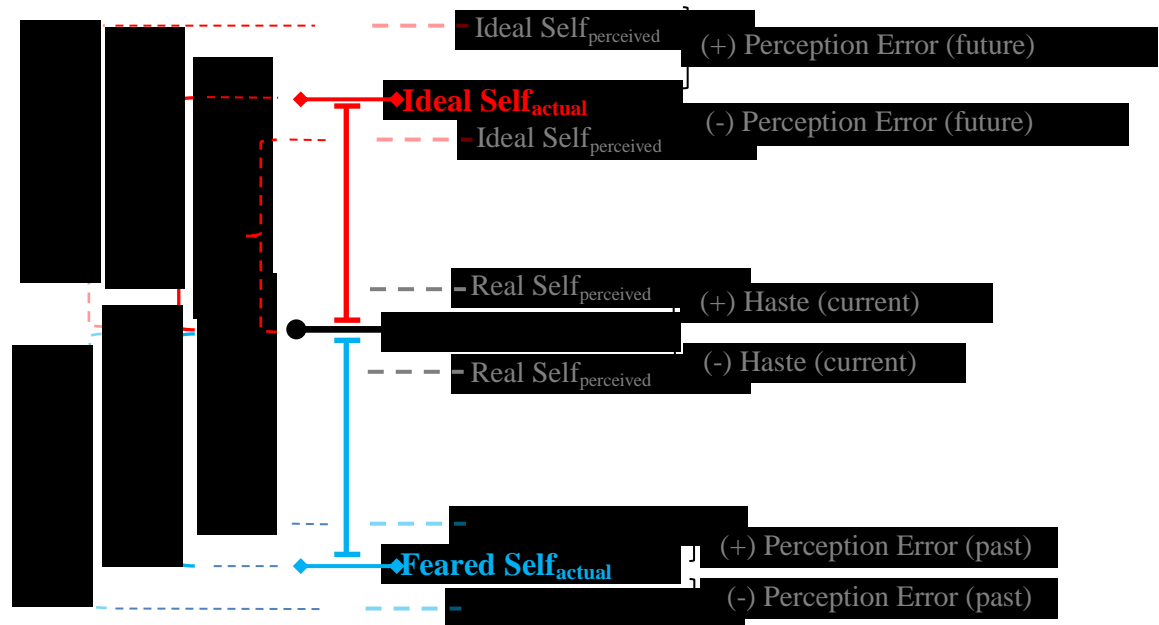


A more operational depiction of the outstanding parts of the motivational model of Rollinson *et al.*’s (1998: 149) and our additions can be seen in Figure 6.7. With this

¹⁰⁴ Relative to ‘Real Actual Self’

figure, it is easier to grasp the relationships of many categories and subcategories we formulate and analyse in this study.

Figure 6.7: Probable Positions of the Categories Regarding Motivation



Now let us give details about these initial blocks of the grounded theory. This new terminology emerged after the coding process of the grounded theory methodology, which is presented in detail, in the Appendix Chapter.

We begin introducing the main codes of the theory with one of the central codes, the *self* and its various forms. Later on we present the *needs* and introduce more additional codes of the theory thereof.

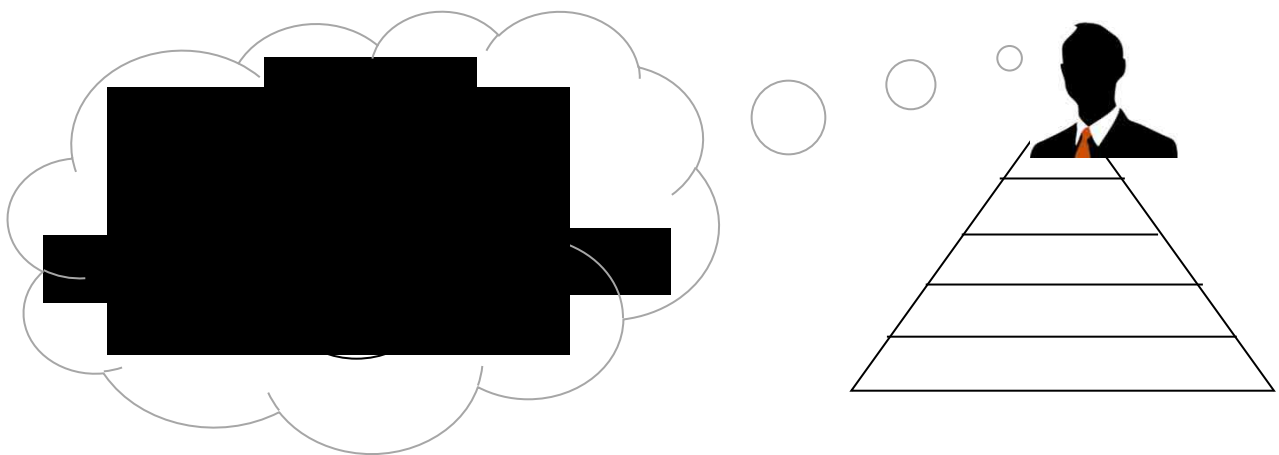
6.2.1 Selves

Earlier in this chapter we mentioned that people choose a combination of targets from material, social and normative targets and generally one or two of them are dominant over other targets. For instance, in capitalist countries, we may argue that material targets are dominant over social and normative targets, while in socialist countries, social and normative targets are dominant over materialistic targets and in Islamic countries normative and social targets are dominant over materialistic targets. These

presumptions are discussed in detail (within page limits) in Chapter 7 under the title ‘passive capable guardians’ but we repeat it here for the smooth flow of the subject.

These possible targets are shown in Figure 6.8, below; along with the social levels at which these decisions are made.

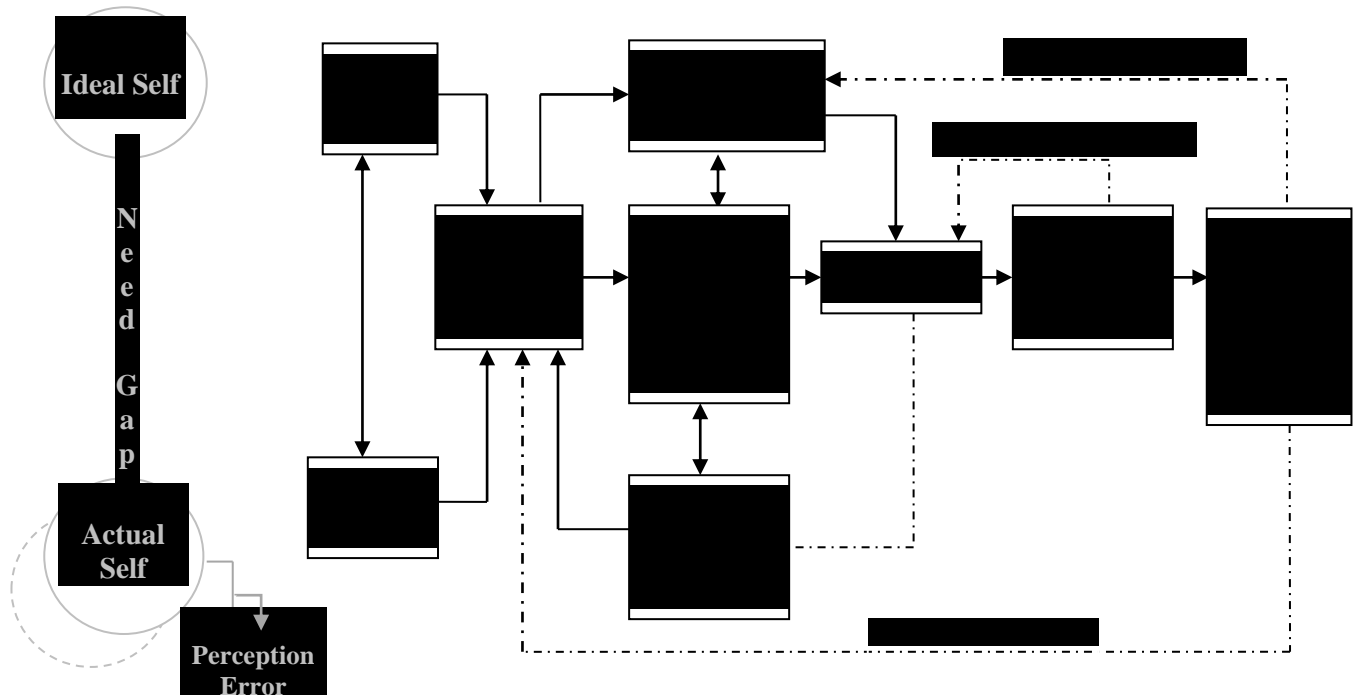
Figure 6.8: Possible Targets of Motivation



As seen in Figure 6.8, we are focusing on the top strata of the societies which are materialistically motivated. Decision making structures may be different in the lower layers but we are not interested in these differences in this study. Since we are studying financial crimes, naturally, we assume that these white-collar, top strata of capitalist, socialist and Islamic societies are materialistically motivated. Indeed, this is what RCT argues. However, RCT does not reveal the consequences of the differences in mixed motivational targets and cultures. Now let us attempt to reveal some of the fundamental consequences of those differences.

In Figure 6.9, we make another addition to Rollinson *et al.* (1998: 149) and make the ‘real’ actual self explicit.

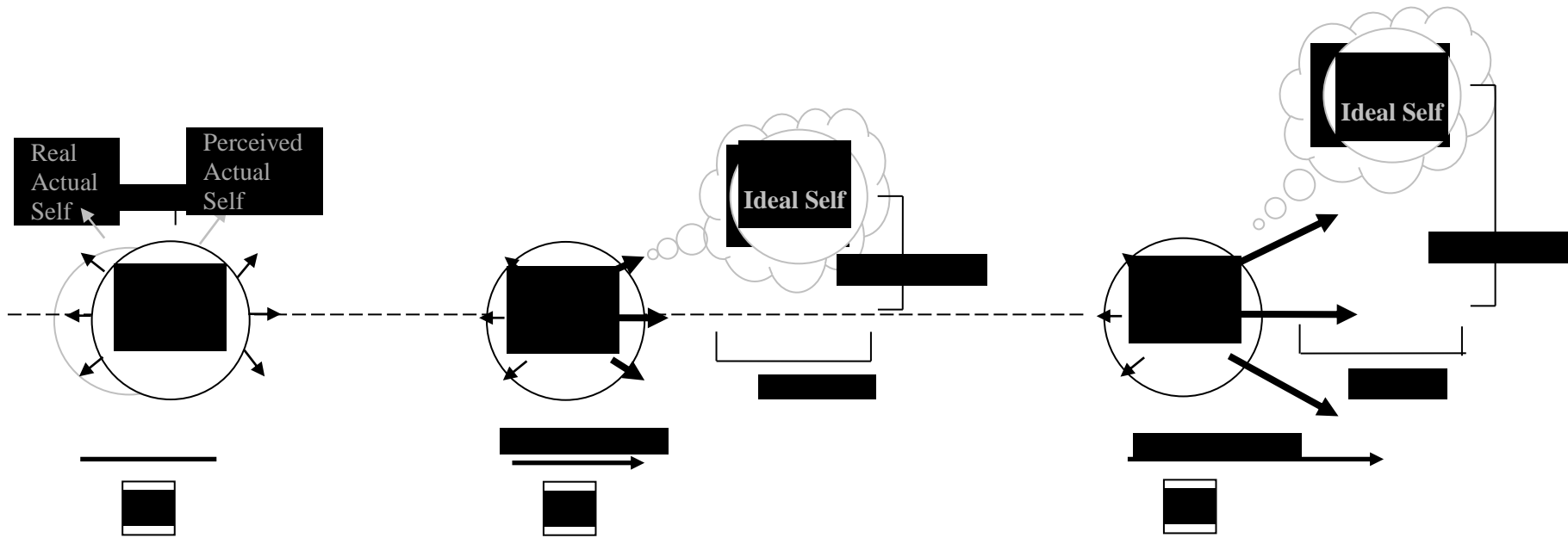
Figure 6.9: Basic Motivation Model Perceived and Real Actual Self



Source: Modified Version of Rollinson *et al.* (1998: 149).

As seen in Figure 6.9, people mainly have two forms of self: ideal and real, but ideal self is not always correctly perceived and the perception error, shown in Figure 6.9, produces another self which could be named as ‘real’ actual self. These three forms of self, that is *ideal*, *perceived actual* and *real actual* are almost equal, matches to *id*, *ego* and *superego* of Freud’s conceptualization of self respectively.

Figure 6.10: Various Positions of Actual and Ideal Selves with Some Motivational Measures

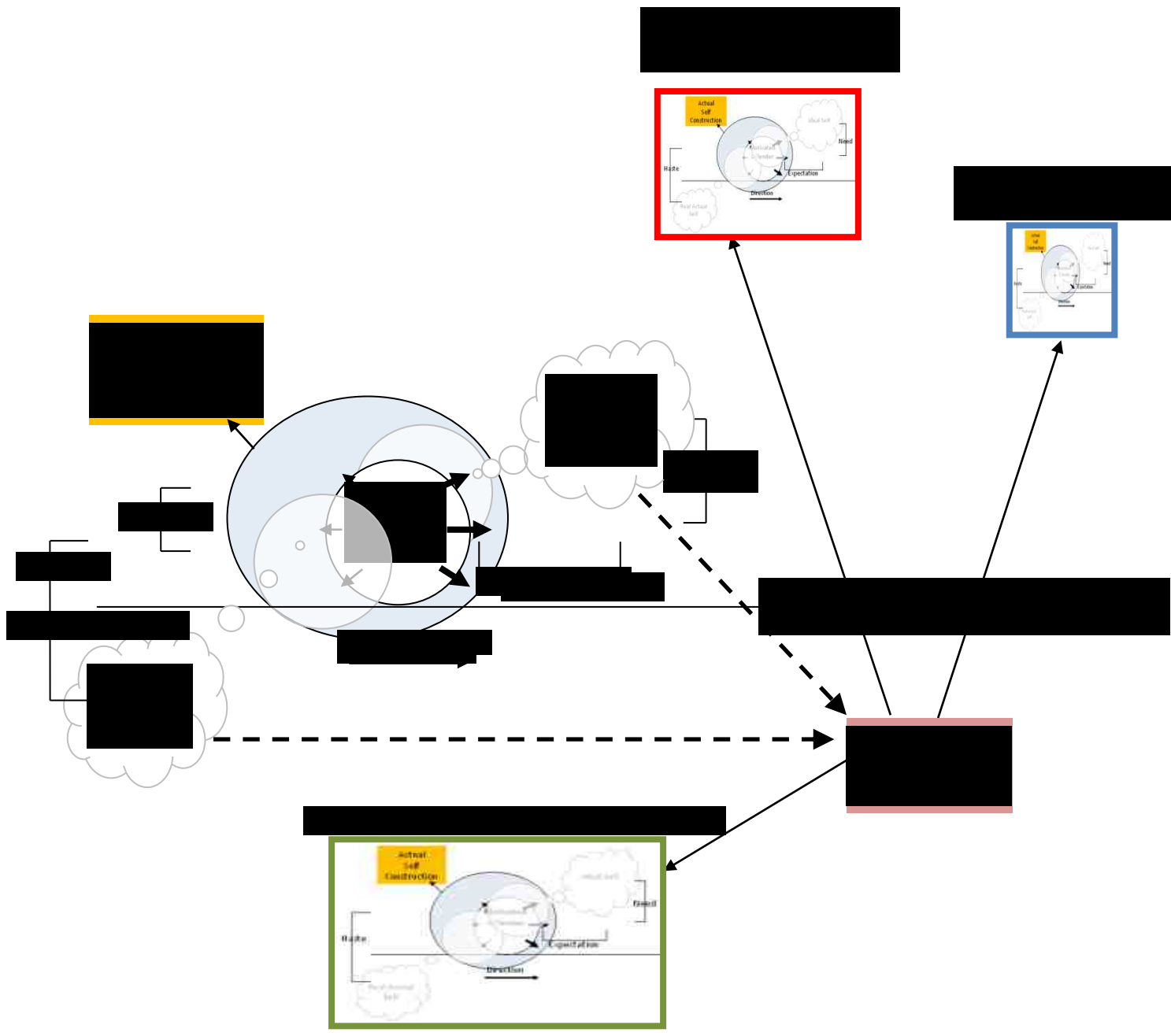


When people's expectations of reaching their ideal selves are relatively lower (as seen in Figure 6.10, C) they are better motivated because they need to do better, perform better to reach their ideal selves and *vice-versa*.

Existences of the *ideal*, *perceived actual* and *real actual* selves, presented in Figure 6.9, require the psychological measures, 'haste', 'expectations' and 'need gaps', presented in Figure 6.10. Two of these measures are already presented in the motivation model of Rollinson *et al.* (1998: 149) and the third one, 'haste', is implied. In fact, even before Freud, English literature presented some good works on the same concepts (*i.e.* Stevenson, [1888] 2003).

Figure 6.11 shows that the *ideal* and *actual self* construction processes are social processes and affected by others' relative positions in the same society and in other societies along with the good and bad labels the other individuals attach to symbols and phenomena in dynamic social learning processes.

Figure 6.11: Ideal and Actual-Self Construction Processes



According to behavioural finance theory, “[h]uman interaction and peer effects are also important in financial decision making” because “[t]he cues obtained about the opinions and emotions of others influence one’s decision” (Nofsinger, 2011: 7) and Figure 6.11, therefore, shows few of these effects.

Since the socialist science literature is not ontologically but only epistemologically different from capitalist science literature, we may assume that there are not fundamental differences in the socialist literature about these concepts and measures. However Islamic science has a different ontological source of knowledge which could be significantly different from the Eurocentric understanding, but Islam offers a very similar conceptualization of the selves. For instance Husain (2006: 15) uses ‘*nafs*’ to denote ‘self’. Burckhardt (1983) also uses almost the equivalent conceptualization of self presented above. As cited by Husain (2006: 15), Burckhardt (1983) describes *al-nafs* as “the subtle reality of an individual, the ‘I’” and to him, it “appears in a negative aspect, because it is made up of the sum of individual or egocentric tendencies”. This is a very similar definition to the perceived actual self because the perception is generally is more than the real self.

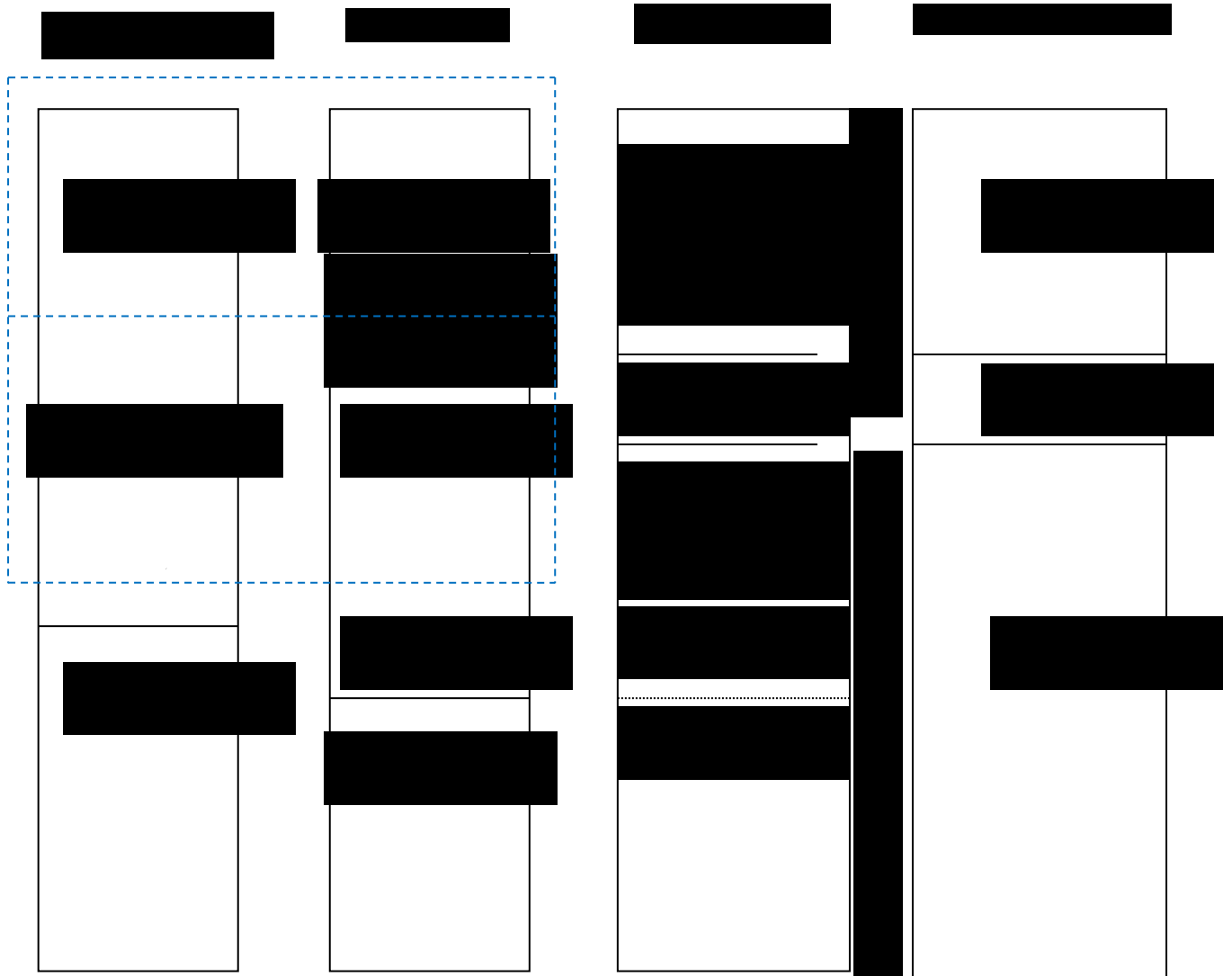
Burckhardt (1983) provides two other definitions of self, similar to the real actual self and ideal self, that is, *al nafs al-lawwamah* and *al-nafs al-ammarah bi al-su* respectively. As cited by Husain (2006: 16), he defines *al nafs al-lawwamah* as “the soul which blames, the soul aware of its own imperfection and *al-nafs al-ammarah bi al-su* as “the soul which commands man to evil; the passionate; egoistic soul”,

Consequently, we can argue with confidence that there is a consensus in various literatures even from different ontologies and epistemologies about the existence of *ideal* and *actual selves* with a margin of error (between *real* and *perceived selves*).

6.2.2 The Needs

The *needs* are put in hierarchical order by many psychologists; Alderfer (1972), Herzberg (1959), McClelland *et al.* (1967) and Maslow (1954) are among them. These scholars suggested ‘ERT Theory’, ‘Two-Function Theory’, ‘Theory of Learned Needs’ and ‘Needs Theory’ respectively. These theories and their corresponding positions about hierarchical human needs can be seen in Figure 6.12.

Figure 6.12: Famous Ordinal Scales of Motivation in Psychology or the Relationship between Content Theory Categories¹⁰⁵



Source: Rollinson *et al.* (1998: 163)

In almost all of these models, basic needs, which are required for sustainable living conditions, are at the bottom of the scale. However this level of the motivation is not our concern, because financial white-collar criminals in all countries are at the uppermost layers of the societies they live in. They are either business people or workers with high salaries or politicians and bureaucrats.

The most famous of the theories of the hierarchy of needs is Maslow's needs theory.

¹⁰⁵ *Ach*: achievement, *Pow*: power, *Affil*: affiliation

As seen in Figure 6.12, the basic idea of this theory is supported by all other theories depicted in the figure. The bottom part of the Maslow hierarchy of needs comprise of material needs¹⁰⁶ and the upper part of social needs¹⁰⁷.

Referring to the earlier motivation theory of Rollinson *et al.* (1998: 149) and the modifications and additions presented above, we may argue that at the beginning of the motivation processes, people first decide, observe, perceive who they are and define themselves in a certain layer of the society. Since we are focusing on WCC, the people concerned are at the top material layer of the society in all financial systems. We are aware that these people's composition is different in different societies and these differences may have consequences for financial crime vulnerability. In this specific layer, they choose an ideal self for themselves and the desire to reach that ideal motivates them. In this process, they extract or disregard some of the possible, better, higher ideal selves from their portfolio, because the expected probability of reaching them in a lifetime is not feasible or legally feasible. Nevertheless, some of them, still, may choose unaffordable ideal selves and be optimistic, take risks or work incredibly hard to reach them. Further research is necessary to discover how people set ideal selves, real and feared selves and why they make perception errors.

6.2.3 The Expectations

According to Burke (2006:43); “[r]egardless of offender motivation, removal of that opportunity [...] will reduce the incidence of crime”. But it is also true that enough *legitimate* opportunity reduces criminality (Landau and Friedman, 1993). Then, motivation has many links to the time and situation before the crime as well.

We may explain this by using an original testimony of a recidivist street criminal. The robber explains the rational choices he had but also explains that he had an earlier inclination (*i.e.* ‘gainful employment’):

I tried to stay away from crime ... Nobody would hire me. I was an ex-con and I tried. I really tried to get gainful employment. There was nobody looking to hire

¹⁰⁶ Despite the fact that the lowest need is named in the Figures as ‘psychological’ needs, it comprises of the needs like food, clothing etc. that are necessary for human survival and body functioning. The second layer at the bottom also represents material need like personal and financial security, health etc.

¹⁰⁷ Llewellyn (1940), Harris P. (1999), Llewellyn and Hoebel (1941) and many others from various backgrounds also agree that “every social group has some basic needs” (Harris, 1999: 4). This information can be used to link this research to other future studies that can extend the results to the groups of financial white collar criminals from individual financial white collar criminals.

me with my record. I went in as a juvenile and came out as an adult and didn't have any legitimate employment résumé to submit. Employment was impossible. So, I started robbing' (Tunnell, 1992).

When we focus our attention on this specific example, the phrase 'gainful employment' stands out in the text, as a warning to us that the offender indeed is not happy with some of the jobs offered to him. Probably, despite his time in prison and his being a convicted person hence, he did not lower or lower enough his *expectations*.

Some people, thus, set higher ideals than others but some set them even higher than their actual capacity allows them. There may be a cultural difference among different financial systems in this regard. If, for instance every person in a given society raises his/her expectations to the top level, compared to another society in which people normally distribute their expectations, simply because we cannot have enough of them, many people in the first culture must try to find ways of satisfying their expectations, probably by committing crime. If certain economic and financial systems are different in this general sense we have to consider it in our analysis due to its varied impact on deviance.

6.2.4 Motivation, Haste and Greed

Motivation of individuals toward an aim or a target can be conceptualised as depicted in Figure 6.13; this can be used to discuss certain variables about the financial crime motivation. In the figure, the motivation is non-deviant because the individual aims at a future position within the range of one 'standard' deviation (t_{SD}) away from his/her current position.

Figure 6.13: Standard Motivated Individual's Time Use



Accordingly, standard motivation is the magnitude of motivation towards financial targets that the majority of the population follow in a specific social environment. Since crime is relative, and deviant, one has to consider would-be-offenders' positions relative to the norms, to normal, standard positions. In this regard, individual X in Figure 6.14 is a possessor of standard motivation and normally (not deviantly) motivated.

Figure 6.14: Standard, Normal Individual with Perceived Ideal-Self 1 SD away (Higher) from Real Actual Self.

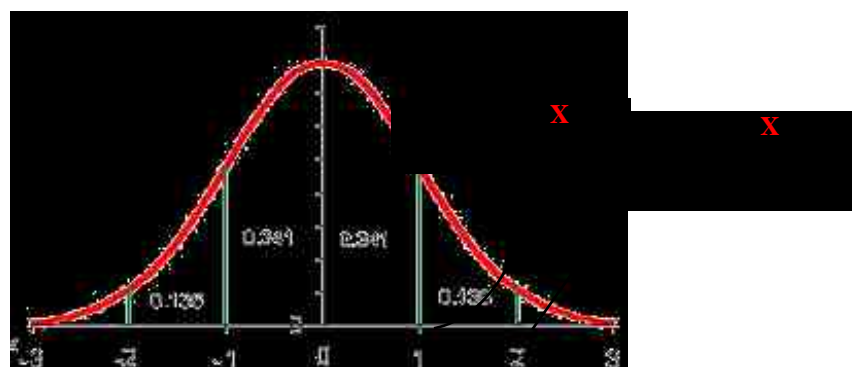
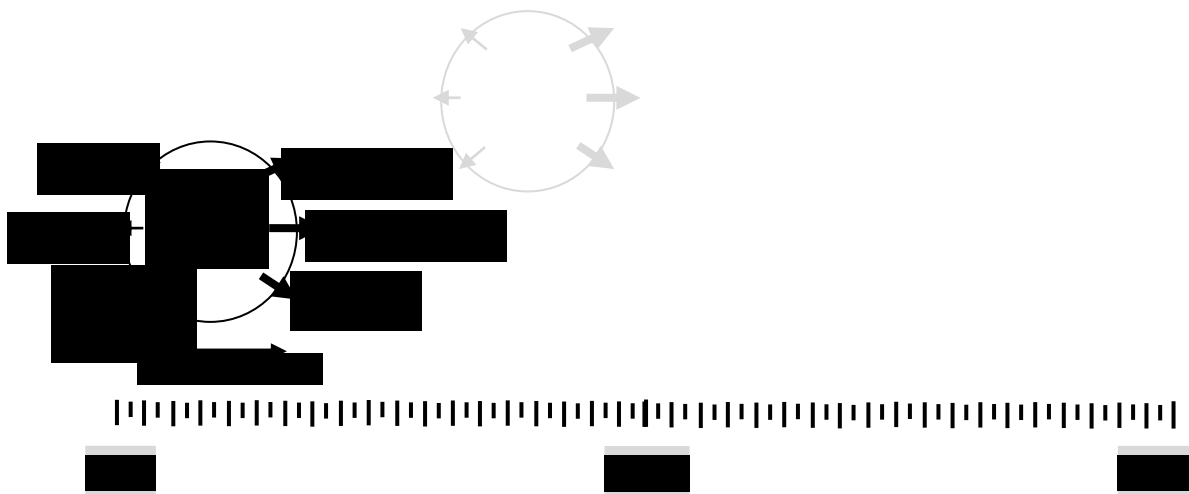
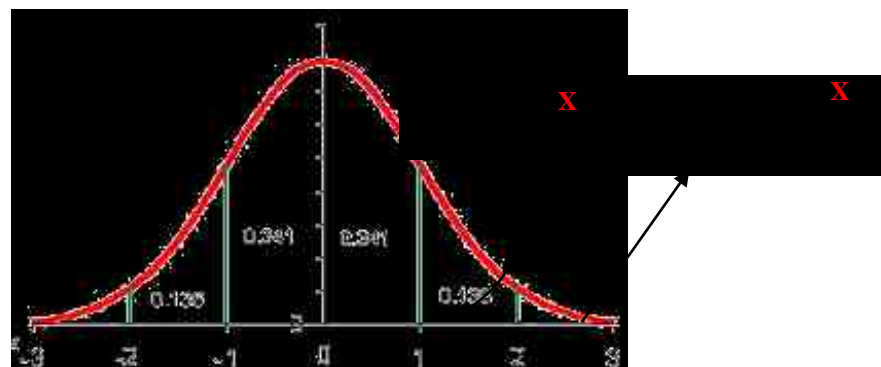


Figure 6.15: Hasty Individual's Condensed Time Use



Hasty individual X with $t \times 2$ time use to reach ideal self by risk or future spread is visualised in Figure 6.15. It should be noted that *hasty* individuals are not necessarily greedy individuals because their situation may be temporary, but greedy individuals' positions are usually permanent because they set an ideal-self more than their financial and social position suggests or allows, that is 1 standard deviation's (SD) better financial situation away from their current position. More explanation about the relevance of standard deviations follows in the upcoming parts but in order to increase comprehension here, we may consider one SD distance for an individual as a 'safe'¹⁰⁸ distance to set goals, ideal selves *etc.* in a given society or financial environment.

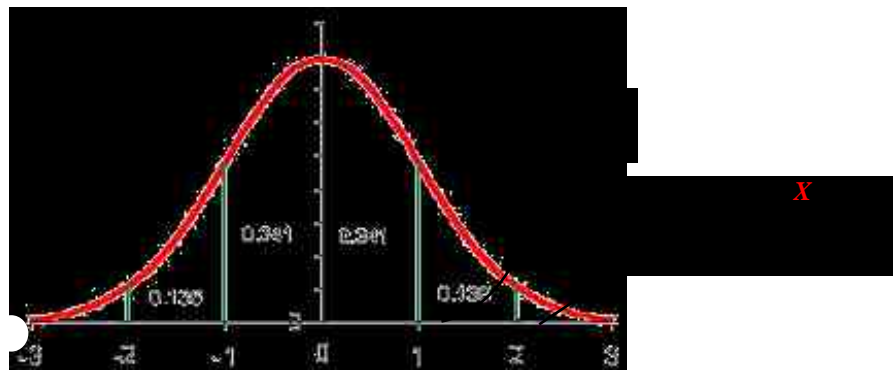
Figure 6.16: Greedy individual's Time use when Real Actual Self = Perceived Actual Self.



¹⁰⁸ Safe in the sense that not vulnerable to crime.

Figure 6.16 depicts that *Greedy* individual X with Need Gap ($\Delta t = t_n - t_0$) $>$ (Real Actual Self (t_0) + 1SD (Δt_{SD})) time use to reach ideal self by risk or future spread when Real Actual Self = Perceived Actual Self.

Figure 6.17: *Patient* Individual's Time Use when Perceived Actual Self $<$ Real Actual Self.



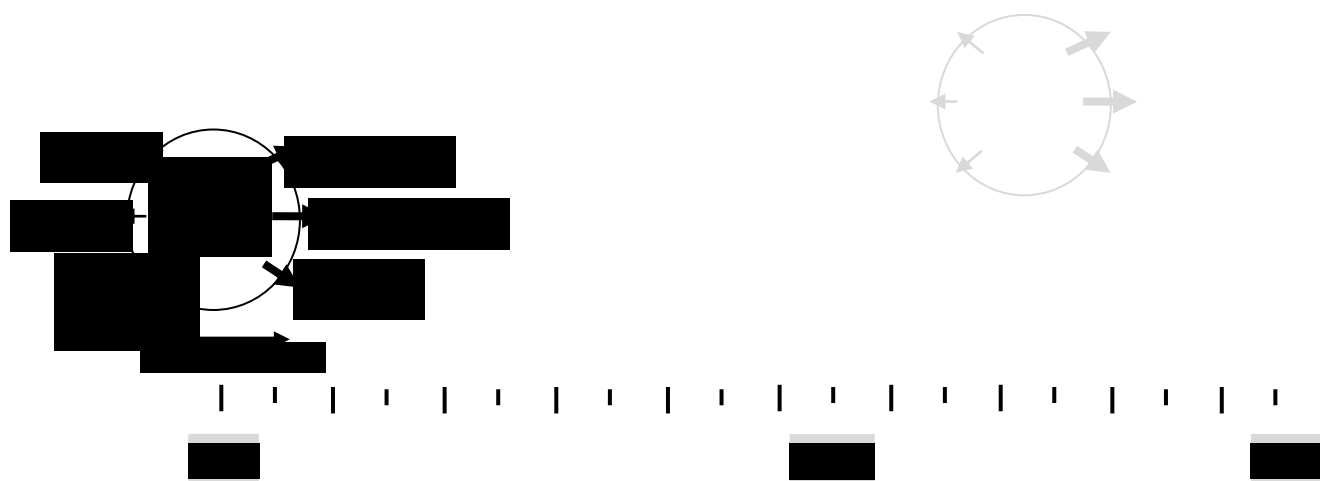
Individual X 's Perceived Actual Self

As for Figure 6.17, it shows that *Patient* individual X with Standard Ideal Self and normal (standard) time-use to reach standard ideal self when Perceived Actual Self $<$ Real Actual Self. The implications of such individual self-perception is that even if the individual sets a slightly unrealistic ideal-self for his/her future life, his safer position in the self-perception (Perceived Actual Self $<$ Real Actual Self) acts as a safeguarding mechanism against crime vulnerabilities compared to other people with positions such as Perceived Actual Self = Real Actual Self or Perceived Actual Self $>$ Real Actual Self.

Figure 6.18 depicts this individual's time perception as well. Patient individuals do not claim their targets in the same (*e.g.* mean) time-span. They would wait until the circumstances allow them to legally fulfill their material targets. Thus, it is all right for them to realize their ideal self in a slightly longer time compared to other individuals.

Patience and haste are indeed two sides of the same phenomenon¹⁰⁹ and haste represents the positive side of the motivation, while patience represents the negative side.

Figure 6.18: Patient Individual's Relaxed Time Use



6.2.5 Feared-Self and Guarding Gap

While calculating their choices, legal or illegal, people do not only consider positive opportunities but also calculate negative consequences of preferring certain opportunities. Indeed, knowing and predicting these calculations, governments aim at feeding people with negative consequences of using illegal means.

This is why *feared-self* is the symmetric equivalence of the *ideal self* just like *guarding gap*, which is the symmetric equivalence of *need gap*. These two contracting and expanding forces are iterated throughout the deviance process and finally people are either positively or negatively motivated. This study is mostly interested in the positive motivation, because white-collar criminals are the end result of this process and their situation rationalized them to be positively motivated. Feared self is also a dynamic term and depends on the actual real self of the individuals, though feared still

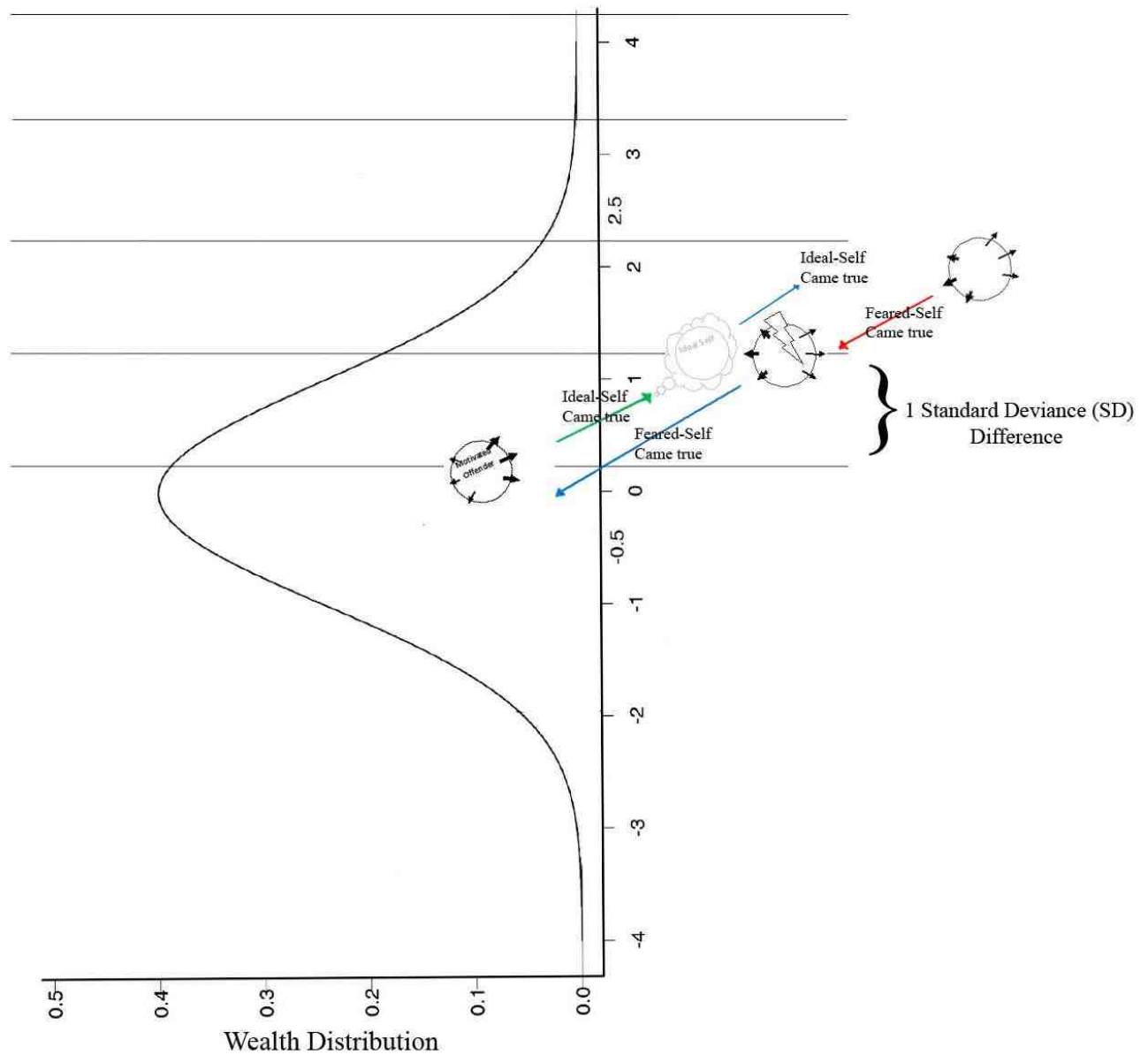
¹⁰⁹ From the point of view of the complexity theory, haste and patience are the best candidates for being the strange attractor of the *motivation* subsystem of the upper level super-system, *crime*, where the strange attractor was motivation.

represents white collar positions for many of the financial white collar criminals.

In almost all societies there are many layers of material average. Many Western societies for instance accept four or five different strata in their societies. It is common sense to assume that people would like to be in a materially higher stratum and would dislike being in a lower stratum and guard themselves against the possibilities that certain things (punishments, labels, stigma, *etc.*) may happen and bring them the unwanted and feared position in the society. In fact, what is guarded is the current position and everything that holds individuals in that position. In this sense, all the material wealth between one standard deviation less income and current income is the amount of the *guarding gap* and what is feared is the loss of that property.

This rationalization process is depicted in Figure 6.19, in which the downward arrows that pass one standard deviation below stand for the white-collar people whose fears of losing their status came true, who now need to live with people from lower strata of the society, who need to compromise some of the habits of the rich in the strata they used to occupy. Thus, these people failed to guard their *guarding gap* and reached their *feared-self*. Similarly, the upward arrows show white-collar individuals who reach the one standard deviation higher wealth position that they *temporarily* idealised before reaching the second and third positions that are two and three standard deviations away from their current position.

Figure 6.19: Rationalization Process in Materially Dominated Motivation



6.2.6 Dynamicity of the Motivation

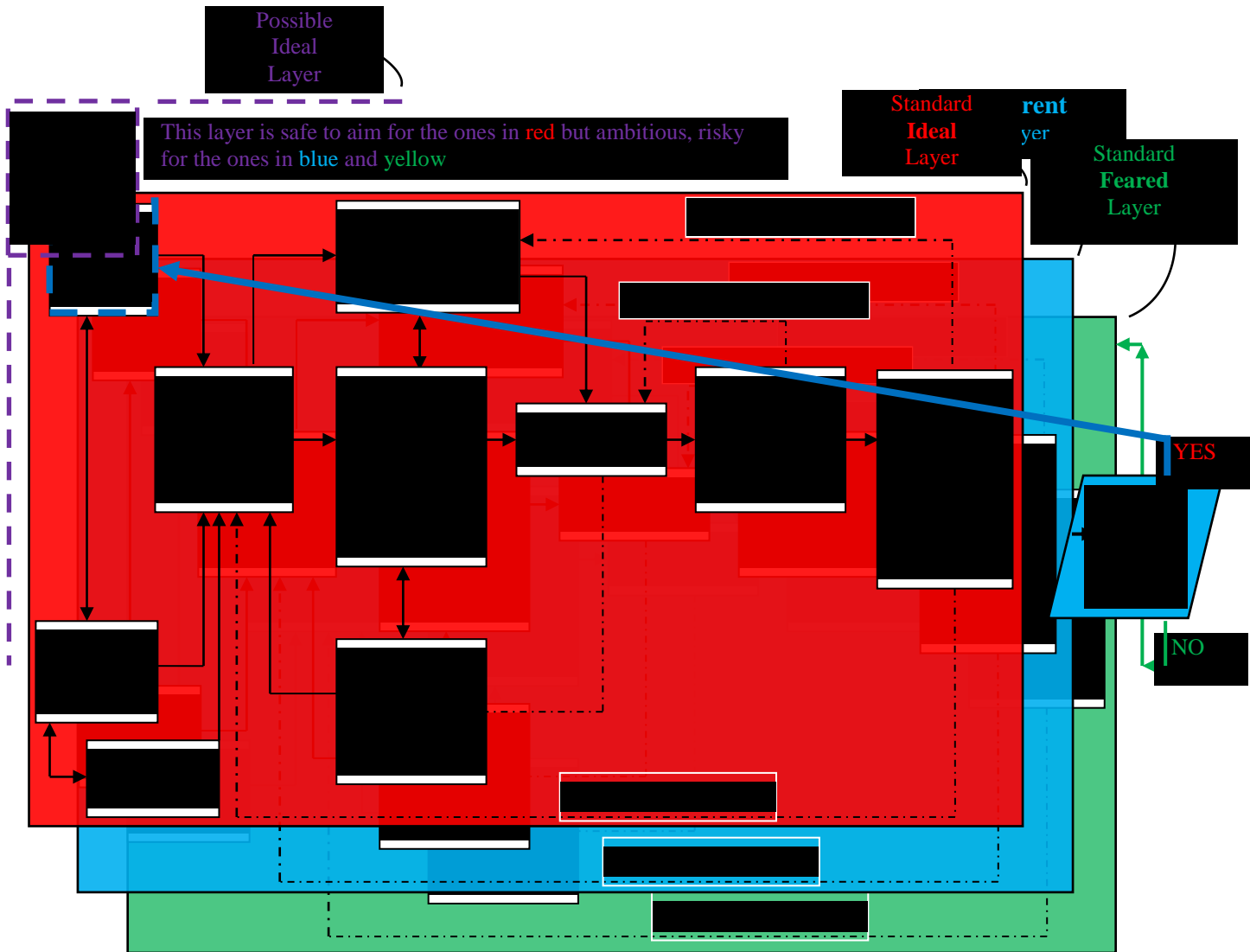
When we look at the Figure 6.20, which provides an agreed-upon depiction of various levels of motivational factors, we have to argue that there are layers of motivation in a given society and it is possible for the individuals to climb up and down these layers in the course of time. Nevertheless, no rational white collar individual would rationally idealise themselves in the highest position in the society nor would they fear

to be in the worst position even in the case of bankruptcy. Usually what they idealise and what they fear to lose are within one standard deviation above and below their current position respectively. Thus, we theorise that material differences are not meaningful after/before one standard deviation in the specific environment in which the financial white collar criminals live unless the individuals are irrationally greedy.

The motivation process represented by Rollinson *et al.* (1998: 149) in Figure 6.4 is valid in one single static layer of many *possible* motivational variations. We however would like to see a model which shows the whole process with the possibility of dynamism, that is, moving up and down the 'needs pyramid', say, of Maslow's. This is possible with small variations in Rollinson *et al.*'s (1998: 149) model. Figure 6.18 shows such an addition to form a dynamic model of motivation.

However, it must be noted that the layers shown in Figure 6.20 onwards are not the hierarchical need layers of Maslow. We theorise that inside every single hierarchical need, there are further layers. Since white collar criminals are at the top layer of the hierarchical needs, the layers shown in Figure 6.20 and onwards are the layer inside the same, top hierarchical needs of Maslow.

Figure 6.20: Dynamic Form of the Motivation Process



Source: Inspired by Rollinson *et al.* (1998: 149).

As seen in Figure 6.20, crime motivation is departing *from within the agents* and by definition means that the *motivation is stronger* than the inner forces that are keeping the individual from deviance such as positive effects of social ties, family, school, education, culture, religion *etc.* which could be named as *impeding forces*. We can see these concepts in a visual form shown in Figure 6.20. It is obvious from Figure 6.20 that for a sound comparison both *attracting (negative)* and *impeding (positive)* forces should be compared between various financial systems.

Figure 6.20 is an important stage of this Chapter which combines many of the

arguments up to this point. Firstly, every one of the layers in Figure 6.20 depicts the internal, motivational position of the individual along with many implications for the future circumstances or crime vulnerability or inclination, although being static in the layer they belong to. These inner varieties of selves, their perceptions and perception errors go into a dynamic cycle from the current layers (blue) to possible upper (red) and lower (green) layers (socio-economic¹¹⁰ positions in the society) depending on the future decisions, circumstance and environments of the individuals. However, even higher and even lower layers can also be realized depending on the socio-economic conditions of the society, the abilities of the individuals and other inner and environmental circumstances.

The context of this Chapter is ‘crime’ but Figure 6.20 depicts only *normal motivation* to work and study in our routine professional and personal lives. It is not about crime motivation yet. This is one of the important distinctions between RCT and the theory built in this Chapter on *crime motivation*. This study, as seen, up to this point, explains crime motivation as a continuum of the normal, regular motivation. The method (*i.e.* grounded theory) of this study suggests that crime motivation is not a condition that immediately develops at the scene of the crime immediately after an opportunity for a financial white-collar crime occurs. Rather, following all the research of psychology, criminology, economics, law and related fields on motivation, there seems to be almost no reason to assume that crime motivation is a completely different phenomenon that is far from the regular meanings of the term individuals always have in them. Appendix A in particular shows how the regular motivation may develop into a strong motive for committing crime in many steps and alternatives for the individual.

Some of these alternatives can be seen in Figure 6.20 as well. People in the current (blue) layer may climb the layers of the society as they fulfil their needs in that specific layer or may not if they fail to fulfil those or may fall down the layers if they break the law or take excessive risk. All the same, they do not have to make a material change in their material lives in order to be stronger/weaker against financial crimes. For instance the individual in the blue socio-economic position (with the perceived selves ready to reveal their implication in the future) may make corrections to his/her

¹¹⁰ Socio-economic because not all the members of the society act on the materially dominant utility function.

perception errors of self, may change the environment in which he/she lives *e.g.* move to a far richer country where nobody has a car but he/she has or where everybody very harshly criticises and punishes white-collar criminals. These or similar future circumstances, everything else being equal¹¹¹, would strengthen the individual against financial crime and make him/her less vulnerable to crime. Likewise, if the individual gains *considerable* (as much as the material gap between his current (blue) position and one standard deviation above his current position (red)) material wealth then his actual, real, ideal and feared selves are changed and adjusted to his new socio-economic status and depending on the society and social strata he/she goes into, the self-perceptions and perception errors and motivation, now affected by the new circumstances of the environment (*e.g.* widened non-linear scale of standard deviation of wealth distribution in his new (red) position in the white-collar settings of the society).

Nevertheless, individuals' time perceptions also play an important role in this dynamic setting. For instance, for some hasty people at the blue layer of the society, the ideal self could be more than the standard, normal, reachable (mean) ideal-self. Those people may aim at the '4th order ideal self' depicted by dashed lines at the upper and leftmost side of the Figure 6.20. These people, according to the norms and standards of the blue (current) layer, are at great risk in terms of financial white collar crime vulnerability because of their hasty time-perception, which makes them want the riches of the distant future in a relatively shorter time (one standard deviation time to reach the mean wealth level of the upper (red) level).

In a sense, Figure 6.20 explains all the important aspects of the theoretical framework except for the financial and economic environment's motivational effects on the dynamic behaviour process which is explained in Figures 6.30, 6.32, 6.33 and 6.36 under the title, 'Motivation and Its Environment' and 'Opportunity Spaces' explained in Chapter 7 and Appendix A.

Following the point Figure 6.20 reached, Figure 6.21 simplifies this complex model into a simpler form to be carried on in the latter parts of the Chapter. In Figure 6.21 the variations of inner self, self-perception and perception errors are abstracted as a

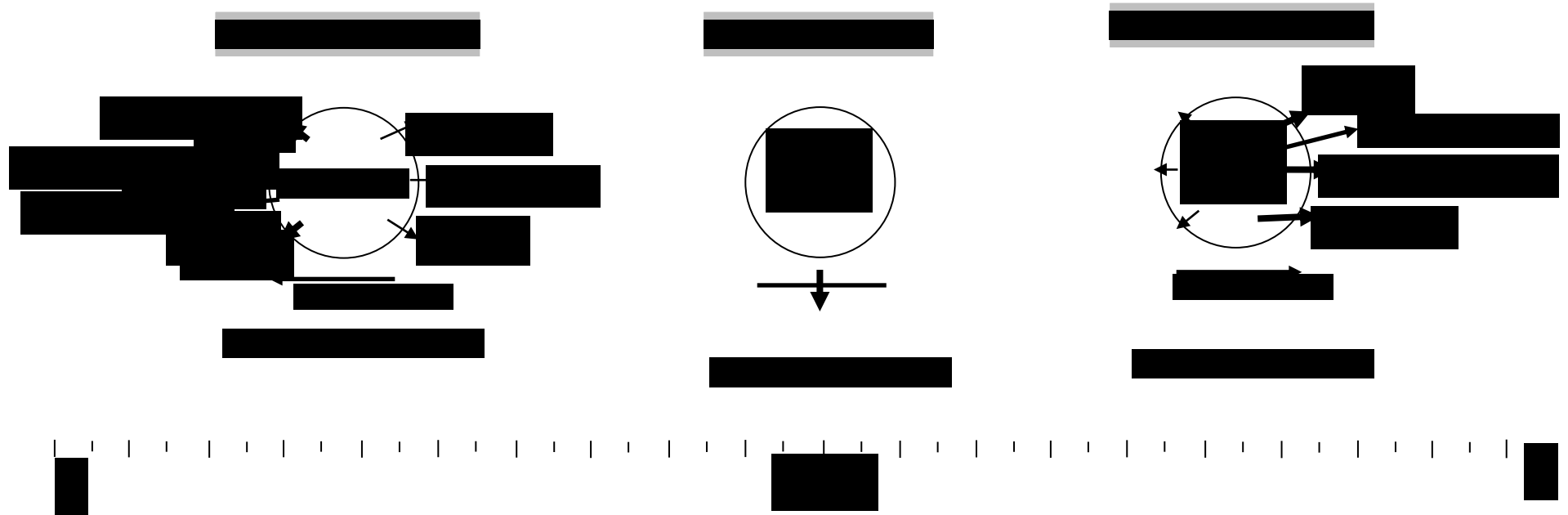
¹¹¹ That the socio-economic position does not change to move the individual to upper (red) or lower (green) positions in the society.

circle to depict a white-collar individual with all of his/her inner complexities, dynamicity and with many implications to be revealed under certain conditions and environments.

The current position of the individual is depicted in the middle as a static being in Figure 6.21 but this static being lives in a financial and economic environment where the statuses, income, wealth of people above and below him/her have consequences and effects on him. For instance, if he/she does not work enough, or does not obey the rules, laws, regulations, ethics of his/her job he/she has the negative consequences which eventually bring about the status (green) below him/her or *vice-versa*. Thus, looking at the negative consequences of the green layer below him/her (left-hand side possibility in Figure 6.21) he/she is motivated and looking at the positive consequences of the red layer above him/her (right-hand side possibilities in Figure 6.21) he/she is motivated further. Over motivation or the overarching dynamic of *left-skewed societies*¹¹² though may cause the individual to take more risk and let the feared self be realised. Nevertheless, we need to wait for the Figures 6.30, 6.32, 6.33 and 6.36 to see how the wealth and time distances between the current (blue) and other (red and green) layers may dramatically differ in different socio-economic settings.

¹¹² Explained in the following parts of this Chapter.

Figure 6.21: Static Individual and Dynamic Motivated Offender Moving towards Ideal and Feared Selves



6.2.7 Offenders' Attributes Affecting White-Collar Criminality

This research realizes that the *source* of the motivation is that the offender has certain character traits that cause variations in motivation because different characteristics of offenders, guardians, victims, targets, affect different parts of the criminality process.

Those characteristics are presented throughout this chapter along with many other codes. Let us now begin with the characteristics of the offender, the originator of the motivation. While explaining, interactions between them and between other characteristics of victims, guardians and targets are pointed out.

(i) *Ability (power) of the offender* stands for the force the guardians will encounter at the time of the criminal act and/or after the crime while prosecuting it. The power differences of the individuals are important because powerful individuals are not really punishable by the legal system. Big corporations for instance in weak countries can circumvent local restriction (Monks and Minow, 2004: 13) and this and similar other examples demonstrate that it is important to realize that the *characteristics of the players change (expand or contract) as the environment changes*. The strength of lobby groups is another evidence that big corporations and other big players are able to influence the laws and regulations or outwit them when they cannot. Indeed often they themselves prescribe the codes of law (*e.g.* competition laws, see: Rodger and MacCulloch, 2001). Thus, if the power of the offenders increases, their punishability decreases.

(ii) *Visibility (Untouchability) of the offender* is important; as visibility of the offenders decreases, the effects of punishments on them decrease. For instance, it is harder to decrease tax evasion in offshore tax havens, because their operations are not visible to many guardians compared to financial institutions operating inside regular jurisdictions. For instance, in some countries, MPs are untouchable¹¹³ through political immunity so long as their election term continues. When people are less visible or more untouchable by the legal system, they are more vulnerable to financial crimes.

(iii) *Punishability of the offender* is about people with mental disorders and illness. In

¹¹³Indeed the word 'untouchable' is even more meaningful when we realise that an equivalent term exists in India to denote racially superior castes.

certain jurisdictions very old and very ill individuals are not prosecuted for their crimes. Children under certain ages are only partially punishable (by *e.g.* parole *etc.*) which makes them very vulnerable to adult abuse by enthralling them to commit crime and then sharing or forcefully obtaining the gains. Therefore, we need to be aware that everybody is not punishable by the same punishment. For instance, the rich are not punishable by fixed (non-ratio) monetary punishments such as parking tickets or spiritual and religious people are punishable by un-earthly punishments. This fact reveals the interrelation between the characteristics of offenders and the characteristics of punishments. For instance, both real and perceived value and impact of the punishment is deteriorated or completely vanished for the unpunishables, because some offenders have the ability to compensate, while for some others it intensifies. When people are unpunishable, they are more vulnerable to crime.

(iv) *Applicability*¹¹⁴ of the punishment to offender is an important characteristic of the offenders, because some kinds of punishment are not applicable to every kind of offenders. For instance corporal punishment, incarceration, sending into exile, are not applicable to corporate offenders or public institutions. It is applicable only to the real persons. When punishment is not applicable to the offenders punishment has no effect on them.

(v) *Liability of the offender* also varies from offender to offender. For instance, individuals are fully liable but corporations' liability is limited, which creates a moral hazard problem and vulnerability. A corporation for instance, has the incentive to borrow much, pollute the environment, take unnecessary risks *etc.* with its limited liability. When offenders are more liable guardians have better effects on them.

(vi) “[C]lose *proximity* to valuable goods will increase victimization levels” Siegel (1995: 74). In this sense, accountants are the closest to tax evasion and dealers (now computers) are to speculation and corporations to price-fixing and manipulation. When agents are closer to the targets, they are more vulnerable to crime.

(vii) *Awareness of the offender* is also varied. Some offenders are more aware about the changes in the environment than others, such as amendments in criminal codes

¹¹⁴Please note the similarity of this *property* of the *concept* legitimate-punishment value to the *property* of inertia of the *concept* of illegal-target value.

and policies. Awareness in different utility dimensions is meaningful as well. For instance the authentic rules of one's morality have no effect on individuals who do not have a working knowledge of it or have misunderstood it. On the other hand, for others who operate on radical interpretations of their environment codes and regulations may have overdose effects on agents. Similarly, awareness in the social dimension is effective only if the individual has enough bonds with his/her social environment otherwise he/she cannot be affected by either appreciation and praise or by stigmatization and criticisms of them.

(viii) As *the nexus of the offender* with other offenders increases while committing crime, punishability and visibility of the crime decreases. For instance, it becomes harder to track international financial transactions in tax evasion cases. Especially transnational corporations (TNCs) are able to move their assets quickly and decrease visibility for any specific guardians in any given jurisdiction.

(ix) *Ownership rights of the offender* are important, because different levels of ownership cause differences in criminal behaviour. For instance, if the offender is in debt and the court is ordered to seize their future wealth, the offender is deprived of the ability to own things. In socialism, many things are owned in common which decreases the share of the real ownership. This characteristic may sometimes force the offender to change the crime target according to the target's characteristics. Thus, there are relationships between the characteristics of the offenders and the characteristics of the targets. In a similar vein, some countries have laws to confiscate the illegal gains from the offender even if the proceedings of crime are not proven to be in their wealth but some others do not have such a law. When things are owned more of their shares by less and owned better by *victims*, they are guarded better and when they are ownable by the *offenders* after the crime, there is more attachment to them.

(x) *Calculation ability of the offender* is worth noting because different offenders have different calculation abilities. Cornish and Clarke (1986) do not talk about 'pure rationality' but 'limited rationality' or 'partial rationality', 'soft rationality'. As a matter of fact, Akers (1994: 58) argues that the assumption of pure rationality has no empirical validity.

Burke (2006: 42), for instance, argues that “it is clearly evident that many petty criminals are incapable of accurately balancing the costs and benefits of crime before committing an offense and many young men get involved in street fights with others like themselves without thought for the consequences of their actions”. When the calculation abilities of the offenders are better, the policies of the guardians have better effects on the offenders.

(xi) *Life-time of the offenders* differs. For instance, individuals’ lives are certain because no incentive is more than the price of life, but the legal life of corporations is negotiable and political offenders’ time-space for the financial opportunities are limited to their term in office. As the life-time of the offenders decreases their risk-taking behaviour and short-term emphasis increase.

(xii) Offenders may be *living in multiple environments*. This is possible for some of the offenders. For instance, corporations, especially TNCs, can very quickly change their legal, cultural, ethnic, economic, financial etc. environment. Tolentino (1999: 171) calls this characteristic of TNCs ‘shopping around’ between countries and thus between different legal, economic, financial, regulatory *etc.* regimes. In financial environments, “global companies now often seek listings outside their home countries in order to attract more international investors” (Morrison 2002: 316) and the investors are being attracted by them. When agents live in multiple environments, the effects of the guardians on them diminish.

To sum up, our model assumes a dynamic individual motivation; however, we also analyse the individual motivation in an *environment*, which affects the behaviour. Therefore, it is not enough to lay down the main principles of the crime motivation, as *we need to formulate the effects of the environment on these motivations* or the motivational make-up, process, dynamics of the deviance.

6.3 MOTIVATION AND ITS ENVIRONMENT

With regards to the meaning of environment in this section, the environment of the crime is everything that affects crime excluding the offender, victim, and target, that is the circumstances, the system, the conditions of the crime. The environment of financial crime is worth analysing, because the legitimate and illegitimate means of

fulfilling the needs are the consequences of environmental opportunities and restrictions. In order for the offender to seize the target he/she first needs to pass the surrounding guardians of the target, assuming that the targets are well guarded.

Similar to the offenders' attributes, there are some distinct characteristics of the *environments*. Among them are *coordination mechanisms* (from the point of view of crime and criminal motivations, acts), *motivating power*, *accessibility*, *richness*, *stability*. These characteristics distinguish one environment from another and significant differences in these characteristics may reveal the nature of being crime-prone. We provide more details about these characteristics in the following parts.

6.3.1 Adaptation of the Motivation to the Environment

In this chapter so far, we analysed and synthesized the positive *motivation* of rational people as a pretext for deviance. We presented this positive motivation in other relevant, non-deviant concepts such as *haste*, *patience etc.* Likewise we want to present this positive motivation and its relevant deviance process in its regular socio-economic *environment*. We first analyse the economic conditions and present social stratum and class dynamics in the society and pinpoint our dynamic deviance process in this *environment*, again, in a dynamic way.

Primarily, in this study, we consider motivation as *both a major preceding factor of crime and a result of an opportunity*, because we theorise that the motivation is not a fixed characteristic of the offender, it is dynamic and recalculated according to the payoffs of all possible positions, but it has different initial levels¹¹⁵ for different offenders.

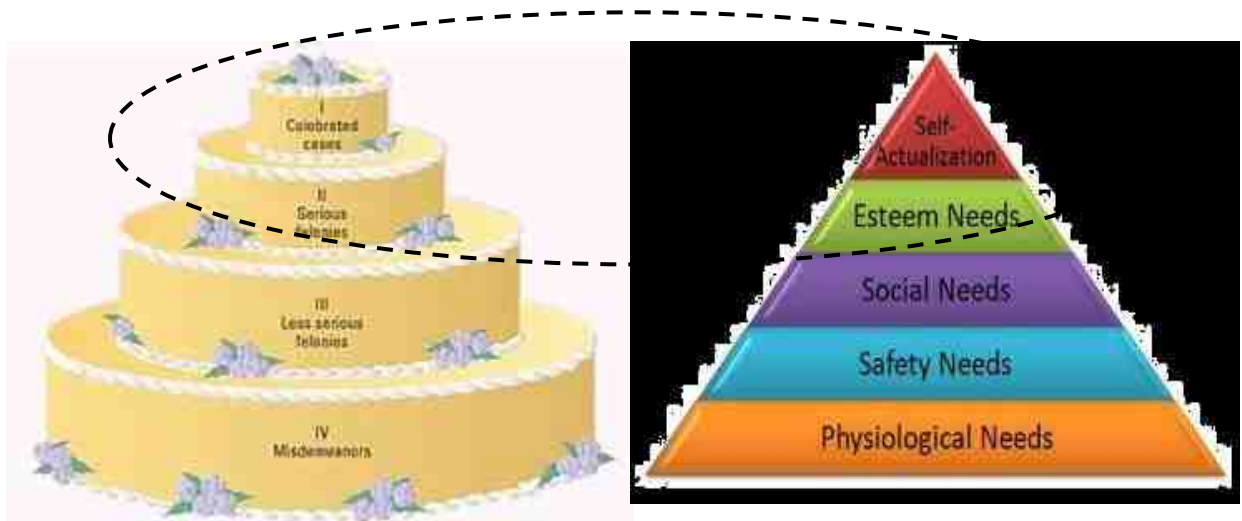
We just assume for simplicity that the up-most, few, complex motivations are enough to represent FWCC motivation in this study and we assume that there are many layers in these upper level hierarchical needs of Maslow. In Maslow's scale, these are 'self-actualization' and 'self-esteem'. We utilize these upper level factors of motivation to compare the need gaps between the *actual (perceived) self* and *desired (ideal) self*¹¹⁶, of various economic and financial cultures.

¹¹⁵ In many ways, initial levels are the primary determinants of the crime disposition. From the point of view of complexity theory, dependence on the initial conditions is expected in complex systems and our theory is consistent with it.

¹¹⁶ In Rollinson *et al.*'s (1998: 149) motivation model.

Indeed, the model Maslow proposes is mostly depicted in a pyramid form just like the figures criminologists use to show the proportions of different kinds of crime. Figure 6.22 shows these similar understandings.

Figure 6.22: The Criminal Justice “Wedding Cake” and Maslow’s Hierarchy of Needs



Source: Siegel (2010: 21), Walker (1983) and Maslow (1954).

Then, the existence of upper and lower level motivating factors and the discrepancy between the *perceived* and *actual* levels of the factors are common and agreed upon knowledge in psychology. For instance, Göksu (2011) mentions both motivation literature and the needs hierarchy of Maslow in the same context under *motivation*. Agreeing these common understandings, we argue that as the gap between the *perceived* and *actual* levels of self-actualisation and self-esteem gets bigger, the financial criminals are more motivated and *vice versa*. Figure 6.12 above already has showed a clear correlation between the levels of need fulfilment and the amount and kinds of deviance. We follow this correlation between the upper level need fulfilment and the amount of crime in the upper level. Indeed, this correlation is appreciated implicitly by Sutherland too.

Moreover, Figure 6.12 also reveals the relative size and importance of various needs in the society. Apparently, needs like food, shelter and other basic needs for survival

are making up most of the criminal wedding-cake. Likewise, the crimes that occur at upper levels are amounting to a relatively much smaller percentage of all crimes, because fewer people reach those levels after fulfilling the lower levels of needs.

It is apparent that all upper level offenders leave the populations of the lower levels and settle in a smaller population in the upper levels. Then crime statistics are lower in upper levels in numbers, *ceteris paribus*. However it is very likely that *the need gaps get bigger*¹¹⁷ as individuals climb this pyramid of need fulfilment as seen in Figure (6.22), especially around the time of entrance to a new attainment of ideal self in the above layer. Then, the *ceteris paribus* assumption is wrong and since upper level *need gaps* are wider, crime rates are supposed to be similar to the lower levels. Crime is supposed to be normally distributed inside certain subsystems of the greater system, including the income or wealth distribution systems. After all, criminology literature could spot no crime causality between the economic conditions and crime.

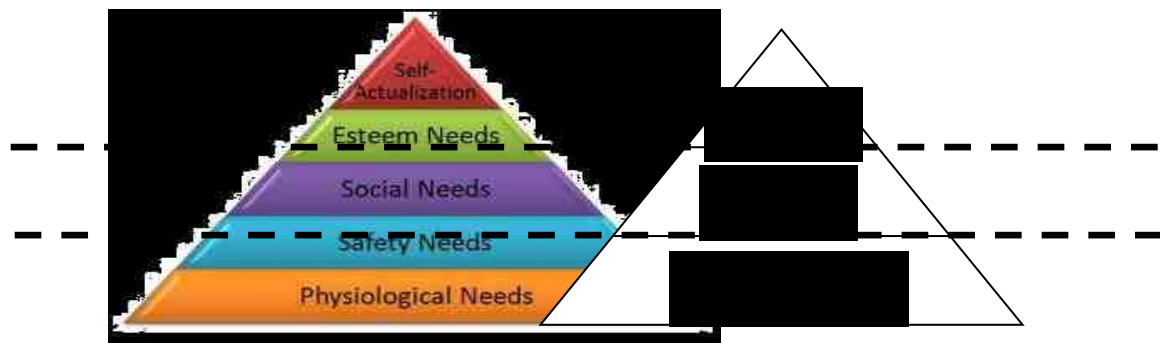
Sutherland's research shows that the crime rate is very similar in upper levels (Hagan, 2010: 201), but apprehension is low. Nevertheless, actual statistics of WCCs are less and similar to the 'wedding cake' (Walker, 1983) model of crime. Hale *et al.* (2005: 267) argue that criminology literature as a whole even treats corporate crimes as if they are nonexistent, they call this "relative invisibility of corporate crimes from popular and academic views", despite the fact that it is a "legitimate area of criminological concern". What is more important, however, is not the amount but the impact of upper level crimes compared to lower level ones. There is a consensus in the literature that the upper level WCC has a big impact on the society.

It is even more interesting to include the social class structures in Figure 6.20, which results in the model presented in Figure 6.23. It is not surprising to realise that different social classes have different needs and that the hierarchical needs theory of Maslow is valid for societies as well as individuals¹¹⁸.

¹¹⁷ Because the layers get smaller in population it means that there is even more competition in the upper levels compared to lower levels.

¹¹⁸ This information can be used in further research to include deviant behaviours in groups and in crowds in order to develop this theory further.

Figure 6.23: Hierarchy of Social Classes with Corresponding Needs



Existence of hierarchical social classes is a well-established concept in social sciences. Muslim scholars, such as Naqvi (1994: 74), also recognize the classes of “*mustadafin*” (oppressed) and “*mustakbarin*” (oppressor). Nevertheless, it is hard to agree with Naqvi (1994), because Islamic law materially determines clear-cut break points between rich and poor and assumes the middle by a well known notion known as ‘*nisab*’ or the ‘threshold income’ above which one is subject to *zakah*, or mandatory alms giving. *Nisab* does not divide between rich and poor but between rich and not-rich because not all of the population below the *nisab* level can receive *zakah*. *Zakah* is mainly given to poor people or people in need. In Islam, there is a big group of people in the society for whom the *zakah* discussions are irrelevant. When an individual has 90.18 gr. of gold or equivalent of money and wealth waiting for the whole year he/she gives *zakah*. However, if one has 75 gr. of gold and no more excess wealth waiting for the whole year except for the regular expenses this person neither gives nor receives *zakah*. Indeed the number of these people is not few in Muslim societies. This stratum of the society in Islam claims more than two distinct economic strata and thus negates Naqvi (1994), not for political reasons but for economic reasons.

Until the criticism of Marxists and neo Marxists, detailed analysis of stratification was rather weak and studies were providing a blunt picture. For instance Berki (1975: 57) states that Marx’s “pivotal doctrine of the ‘class struggle’ is but a more coherent, systematized expression of the classical conception of the conflict between the rich and the poor”.

Thus, we theorise that motivation in the upper stratum of a given society is different than the motivation in the lower stratum. Further theoretical explanation is presented in the following sections regarding the characteristics of the society that affect the shape of the motivation in the upper and lower strata.

6.3.1.1 Meaning of normality and normal distribution of wealth in social sciences

The conception of Marx is not irrelevant to modern discussions because modern, everyday discourses like first class flight ticket, seat, service is not only about being rich, but the explicit social recognition, valuation and differentiation of it from the other members of the society. Berki (1975), Naqvi (1994) and similar others would agree that there is the super-rich (Irvin, 2008) and super-poor (Evatt Foundation, 1991) in the society, along with rich and poor, at extreme distances, away from 'nisab', or wage labour. We may argue that as people climb upper levels of the power structures of their societies, their opportunity spaces get bigger and *vice-versa*.

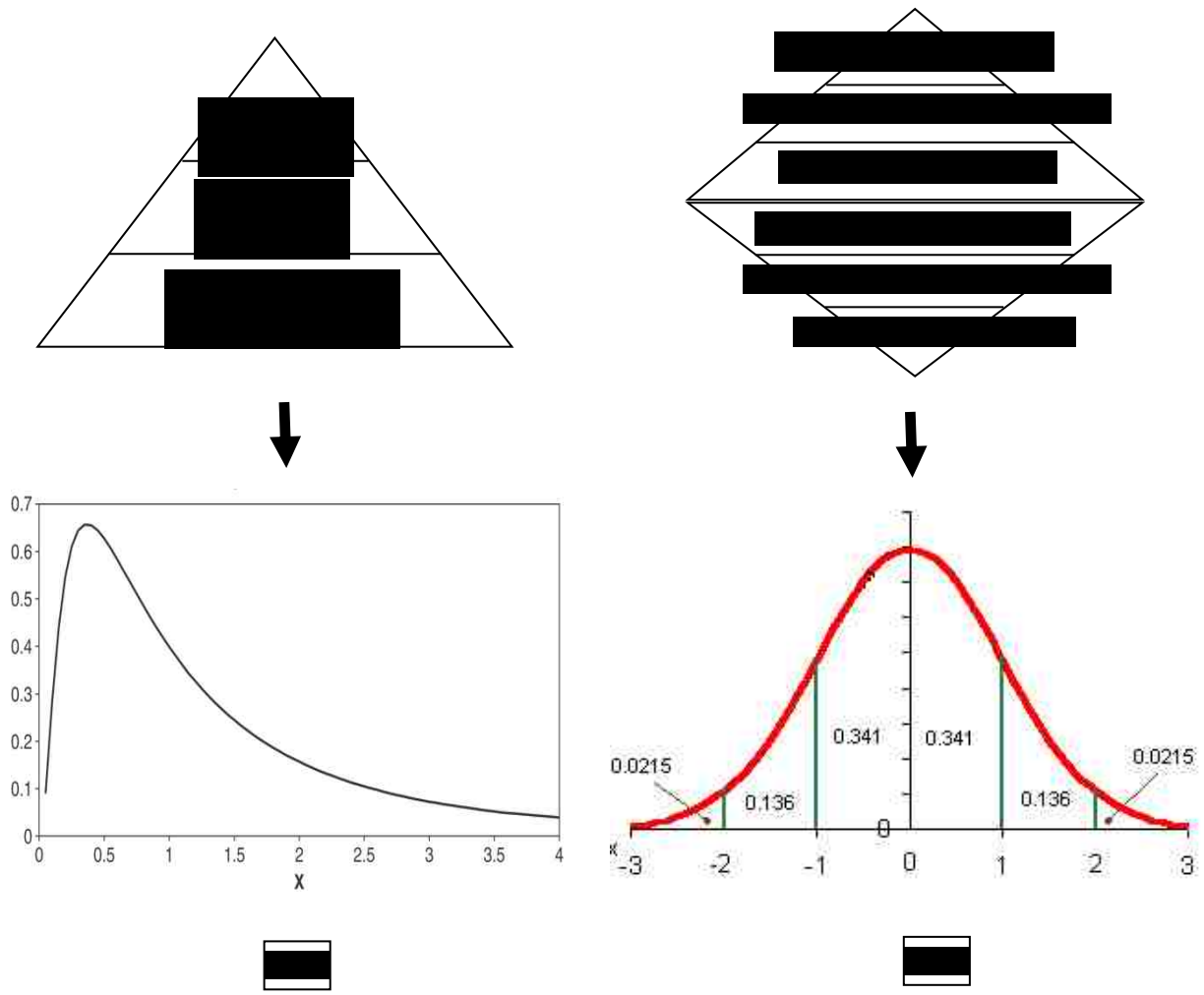
Macionis and Plummer (2008: 306) give the following distribution from Runciman (1990) about the social classes in Britain: *Upper class* is made up of upper-upper class: 0.2 – 0.1% and lower upper class: less than 10%; *middle class* comprises upper middle and service class: 15% and lower middle class: 20%, *working class* is made up of skilled working class: 20% and unskilled working class: 30%; *underclass* is 5%. When we combine them we come up with approximately 10% for upper class, 35% (15+20) for middle class and 55% (20+30+5) working and under classes. If we combine working class and underclass and attempt to visualize these numbers, we realize that it makes a pyramid as presented in Figure 6.23. We add some of the closer numbers together, because this is the trend in the literature. For instance, Giddens (2006) questions¹¹⁹ the existence of the underclass. Aside from the real numbers, suggested by many studies, the impression and the perception in the field of sociology is that the poor is not better than any class in the society and is worse than all others. The popularity of Maslow's pyramid shaped hierarchy of needs could be a reason for this trend.

In any case, we normally expect that the *distribution of wealth* is not positively skewed, but *normally distributed* with a variety of different means and variances in

¹¹⁹ While explaining all the classes one-by-one in his book, for the 'underclass' only he uses a question mark (?) in the title, as follows: 'underclass?'

market societies. Nevertheless, the position of the socialist societies is worth a second analysis, because they assume and want to realize an equal distribution, a rectangle shape in our case. All the same, since the 1980s, in the age of transitions to market systems, we could safely assume a normal distribution with very low variance for them. Thus, normal distribution must be *the normal, the standard* for distribution of wealth and income, because every ability of the individuals is normally distributed, and they are announced as living in meritocracies. However, this new statistical perspective points to another form of social stratification as presented in Figure 6.24 and 6.25.

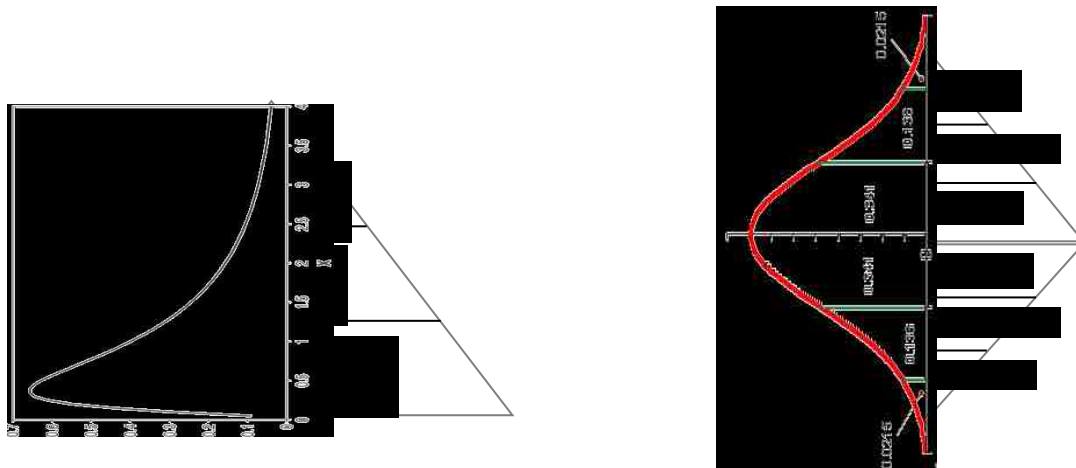
Figure 6.24: Social Classes and Their Corresponding Normal



Source: A: Inspired by Macionis and Plummer (2008: 306) Adapted from Runciman (1990)

We may have a better comprehension from a superimposed view of these figures in Figure 6.25.

Figure 6.25: Social Classes and Their Corresponding Superimposed Normal Distributions and Non-Normal Distributions



As can be seen in Figure 6.25, if we leave *underclass* (5%) as is suggested by Runciman (1990), remembering that the upper upper-class was .1 - .2 % only we may realize that there is (*positive*) *skewed normal distribution* here.

Reminding ourselves that all social data are normally distributed, we expect the wealth distribution of healthy societies to be close to a normal distribution (a diamond in our case). This is very reasonable to expect, because all of the factors of accumulating wealth, such as abilities, *IQ*, *EQ*, labour, education, chance, and inheritance are all normally distributed. Besides, in our everyday lives, we see too few super-rich and terribly-poor just as we see few very low and very high *IQ* people, very strong and very weak people *etc.* and too many working people, normal *IQ*, normal strength, education *etc.* around us compared to the better (upper side of the centre of diamond) and worse (lower side of the centre of diamond) of the ‘normal’.

Nevertheless, as the percentages suggested by Runciman (1990) show, the diamond, based on the real values – of Britain - would be too skewed to name it as a diamond, or normal distribution. This could be the evidence that one should not expect a non-normal distribution of wealth and income in socialist countries only. Market societies could have non-normal distributions as well. This and similar other statistical data that is presented in the following parts of the text could be another reason (other than

increasing financial crime frequencies) to look for mistakes in application or theoretical misinterpretation of the Western form of capitalism.

6.3.1.2 Relationship between social stratification and hierarchical needs

The normal curve may not be perfectly normal in real cases¹²⁰ or may be completely non-normal¹²¹ as in socialist countries. Socialist countries with no real market would not provide an unskewed normal distribution, because the upper side of the diamond – although argued to be not existing at all - would be pressed down in favour of the lower part of the diamond, or through the left, negative side of the normal bell curve and should be providing a diamond that is more similar to a rectangle.

In the following parts of the analysis we present the relationship between the wealth distribution in the society and the hierarchy of needs. In this context, we chose not to use our original analysis in order to simplify it and because it is popular to use Maslow's (1971) model but we should mention that the *normal*, diamond shape suggested in our study is not contradicting the hierarchical nature of the needs, on the contrary it encompasses the previous knowledge of needs and enhances it by including the realization of the validity of the normal curve in the context.

Financial agents, especially in the last few decades, are at the top of the pyramid of classes. There are mainly two reasons for that: (i) They manage the capital which is valued greatly very easily and in a very complex way compared to the past; (ii) They have the expertise of doing this. Knowledge, being an important power¹²² (Foucault, 1980) especially in the last century, brings finance experts to the top power levels of the societies. Companies like LTCM with many expert PhDs, using techniques like 'algorithmic trading', 'high frequency trading', are making the finance market so complex that only a few finance experts – who are most of the time mathematics or physics graduates in finance known as 'quants' – really know the true milliseconds effects of the financial tools and mechanisms. This is another reason why it is not reasonable to have an upside down pyramid or a rectangle for the criminal justice

¹²⁰ Because economic and financial systems are complex systems and they usually give nested, repeating, fractal patterns (Mandelbrot and Hudson (2004).

¹²¹ Mandelbrot and Hudson (2004) announce that they could not observe the expected complex patterns, in the financial markets they analysed.

¹²² Originally used in 1597 by Francis Bacon's (1924) "*Meditationes Sacrae*" [Sacred Meditations].

wedding cake of Siegel (2010: 21) in financial crimes because, as conflict theoreticians argue, the powerful have the power to clean themselves off the crime statistics by controlling the ‘active guardians’ (presented in detail below).

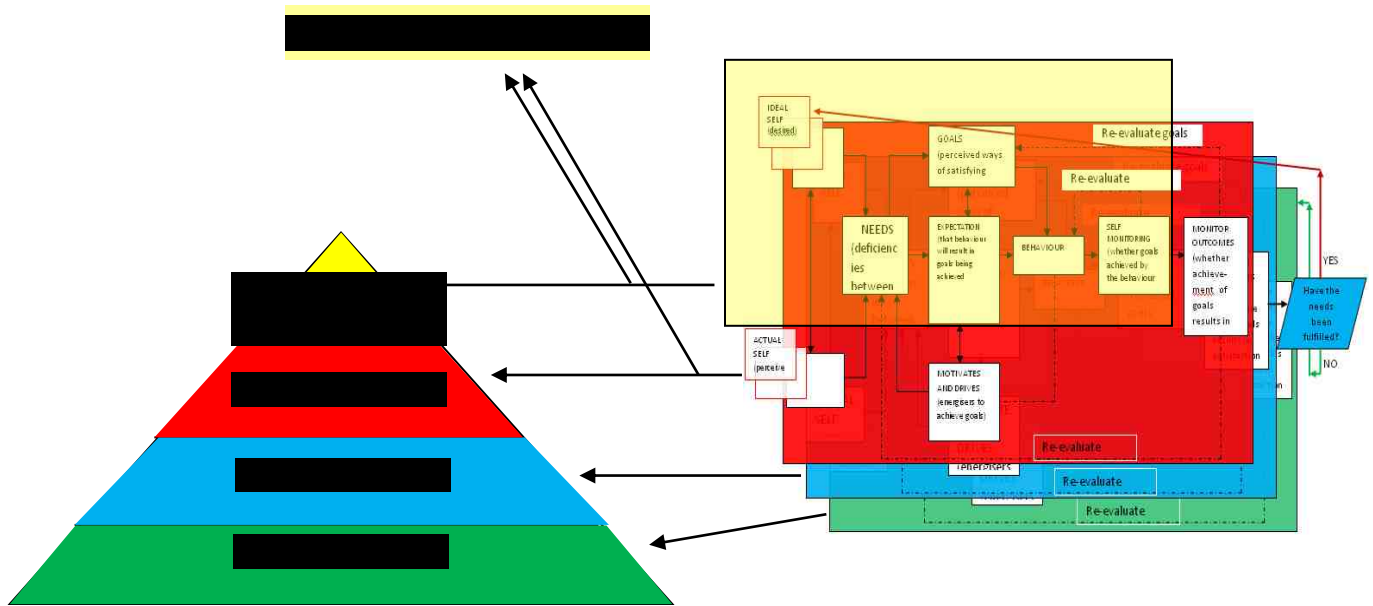
To show the common motivators of the top groups in both pyramids in Figure 6.22 and 6.23, we may refer to James (2008: 5): “placing too high a value on money, possessions, appearances and fame”. The words ‘appearances’ and ‘fame’ clearly show that the upper-level crimes of white-collar criminals are not crimes in isolation but crimes that have to occur relative to others, that is, in a certain society. Therefore, the comparison of social cultures is crucial, while studying WCCs in general and financial crimes in particular in a comparative study.

‘Self-actualization’, ‘self-esteem’ and ‘expectancy’ in economic and financial systems appear in mainly four levels in economies: international, national, group and individual levels. The factors we mentioned in Figure 6.7 and Figure 6.10 above and the mechanism we presented, motivate people to have deviant behaviours; however, these are positive effects only. Analysing just these factors does not provide reliable results unless we include the impeding forces and their (negative) effects on the crime motivation, namely, the effects of values and norms (or passive guardians).

Let us remind ourselves that we analysed only motivation in the preceding sections and passive guardians are presented here because of their relevance to motivation. We analyse both positive and negative effects simultaneously in the following parts of this and following Chapters.

Figure 6.26 combines the arguments mentioned to show the relationship between dynamic motivation in different layers (representing significantly different levels (1 SD apart of the society) and corresponding hierarchical needs.

Figure 6.26: Dynamic Motivation in Layers, Corresponding to Different Levels of Maslow's (1954) Needs Theory.



Thus, depending on the current position of the individual in the society the types of the crimes offenders commit vary because the *needs* and *ideal* and *feared selves* vary. Nevertheless, this is not the only differentiation factor. For instance, offenders with different dominant utility-dimensions may operate in different dominant utility-dimension environments and commit different types of crimes.

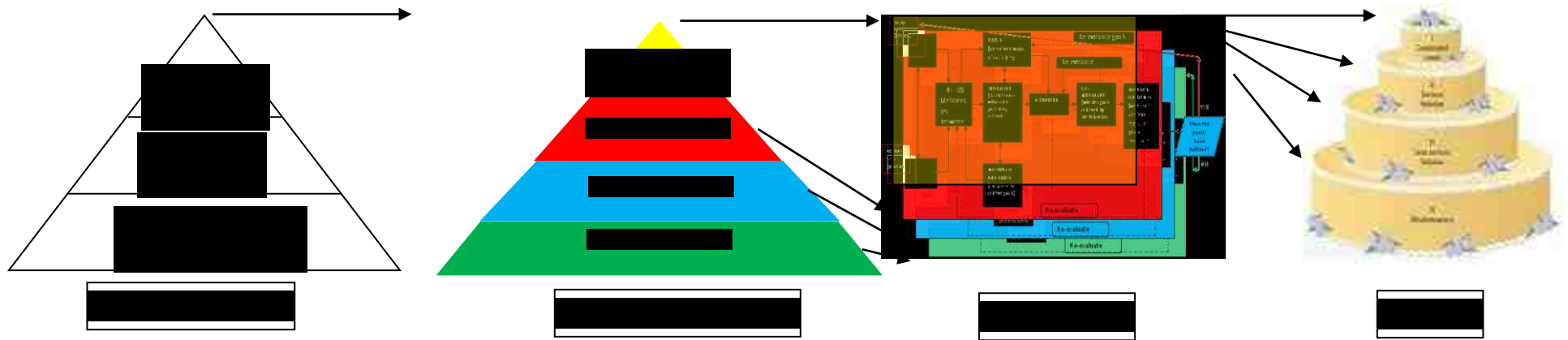
When we remind ourselves that the right-hand-side layers of Figure 6.26 depict regular motivation to work, study etc. in our regular professional and personal lives and that the upper layers are reached by the need fulfilment specific to that layer and excessive risk taking behaviour or the consequences of the financial and economic environment for the society the individuals live in force individuals to fall to the lower layers, it is easier to relate this figure to the needs hierarchy depicted at the left-hand-side of the Figure 6.26. As this part of the figure shows, the dynamic meaning of the *need* in different hierarchical layers of the society, the figures in the right and left-hand sides, perfectly match, showing us that as the individual moves up/down in the society, the things he does and needs or the things that are required from him do change, changing various circumstances of specific crimes and even the types of crimes the individuals are vulnerable to in specific layers of the society. For instance,

white-collar individuals are not really likely to be vulnerable to street crime such as murder. For instance Al Capone did not kill people because many of his men could do that for him while he had a holiday in Florida.

Figure 6.26 also reveals the fact that white-collar people usually have enough material wealth and they are in need of self-actualisation and esteem needs. This does not mean that they would not commit financial white collar mischief but rather they would do it not for material gains but maybe so that people would know that they have the monopoly power in the market with great esteem.

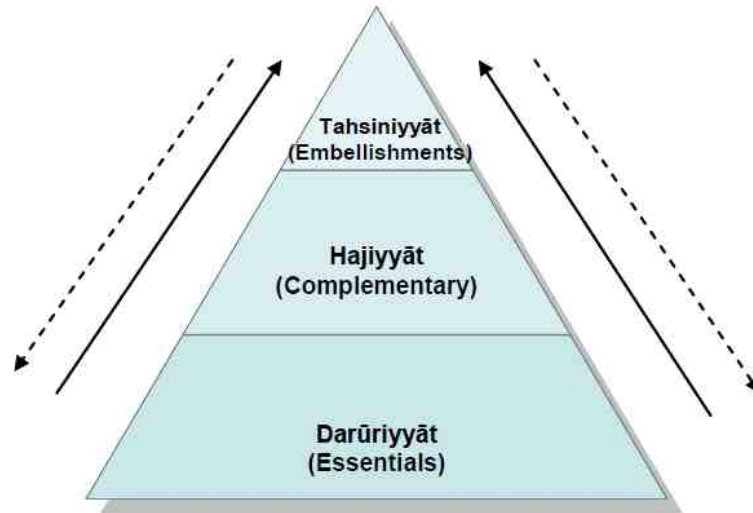
Looking at the similarities of explanation in various contexts about the white-collar people and their criminal behaviour, one can give a brief profile of the financial white-collar criminal. These people are few in the society, they are always spoken about, they are well known in the society, they are rich or very rich, powerful, but they are not after some material pleasures such as expensive cars but rather after the pleasure of other, more abstract things such as fame, power, esteem, self etc. which can be reached by excessive wealth, they fear to be known as criminals and they are good at hiding their crimes as the wedding cake model shows.

Figure 6.27: Position of White-Collar Agents in Class, Need, Motivation and Crime Hierarchies



Dusuki and Abdullah (2007) argue that the same hierarchical needs are valid for Islamic moral understanding of the society as depicted in Figure 6.28.

Figure 6.28: The Pyramid of *Maslahah*



Source: Dusuki and Abdullah (2007: 35).

Dusuki and Abdullah (2007: 15) give very similar explanations for the hierarchical needs in the moral dimension in Islamic law: “The bottom level, which is represented by the essentials (*darūriyyāt*), constitutes the most fundamental responsibility to be fulfilled as compared to the other two categories, namely the complementary (*hājiyyāt*) and the embellishments (*tahsinīyyat*)”.

Consequently, we may argue that deviance follows a hierarchical, dynamic, rational and relative process, because offenders have different needs, need gaps, expectations, opportunities.

6.3.2 Dynamicity of the Environment

The model we suggest is an adaptive model and it adapts to various possible social, political, physical environments. We postulate that, depending on the qualities of the environments; the behaviour patterns would change accordingly.

Let us now analyse the consequences of the normal distribution on our adaptive

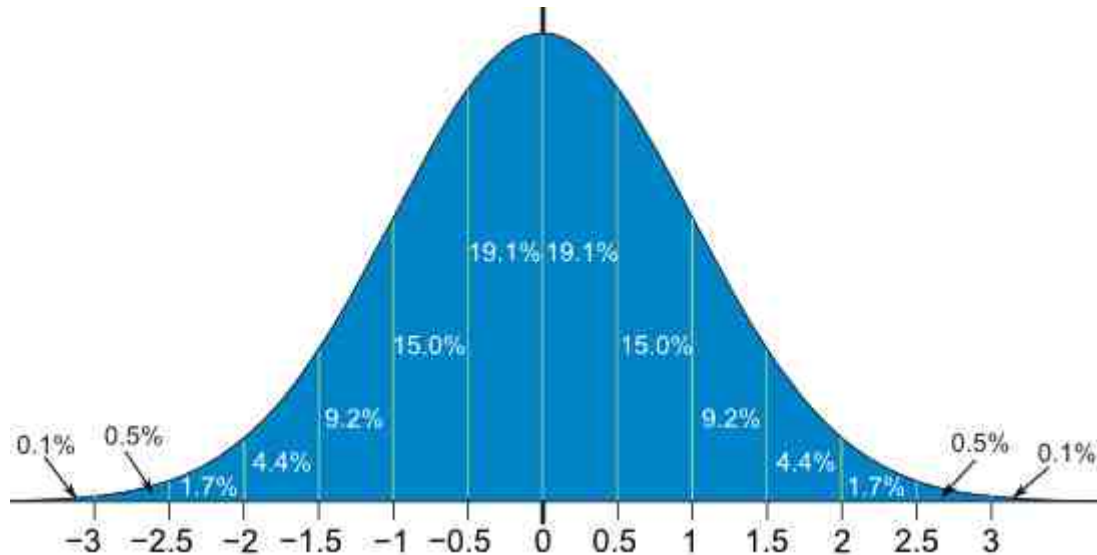
model. We discuss the consequences for the material dimension only because our theory is confined to financial crimes, nevertheless other utility dimension do exist and affect the material dimensions and the model operating in it.

6.3.2.1 *Dynamicity under normal environments*

The normal economic environment and its effects on the formation of the ‘selves’ (for financial crimes) can be denoted by various socio-economic distributions. Let us, first, consider the normal distribution of *wealth* as the first and foremost candidate.

Socio-economic infrastructures where wealth is normally distributed share the common characteristics of normal distribution as shown in Figure 6.29: *symmetry* (half of the values are at both sides of the mean; *mean, mode* and *median* are very similar; in standard normal distribution they are the same); *standard deviation* deviates in equal proportions towards both directions, and this is what we are interested in for our analysis here.

Figure 6.29: Standard Normal Distribution with .5 Standard Deviations



Since the standard deviation departs from the mean and from other standard deviation points in equal proportion in both directions, an imaginary offender on the mean, that is who resides at the average position in the socio-economic infrastructure of the society, needs equal proportions of gains and losses to either go forward on the socio-economic ladder of the society or backward. For instance a big loss (illegal or a-legal)

or punishment (official punishment) that is proportional to the fear-gap of an offender, when realized a few times, may bring the offender to the first feared, backward position in the social strata of the society. In normal infrastructures the same proportional gains (*legal, illegal or a-legal targets*) when realized, would then alleviate the offender's position considerably in the social strata of the society.

Under normal distributions, there are two possibilities: (i) low-kurtosis distributions, (ii) high-kurtosis distributions. *When the underlying distribution is wider and the kurtosis is low, compared to the same distribution with normal kurtosis, individuals would be more alert and responsive to both opportunities and threats*, whereas in socio-economic infrastructures with high kurtosis people would be less responsive to both opportunities and threats, because the position they would reach as a consequence of the attempt that results either by gains or losses would not differ a great deal compared to their current positions.

Since this effect is the same in non-normal infrastructural effects too, we may argue that the *kurtosis of the socio-economic distributions may be translated as the volume of the response by the individual to the outside effects*.

6.3.2.2 Motivational threshold for crime

The motivational threshold for crime is passed when *perceived net value of the illegitimate target* exceeds the *need gap* between *real (material) self* and *ideal (material) self* by *hasty* offenders but offenders that are not *hasty* but *greedy* can also commit financial crimes even when the *perceived net value of the illegitimate target* does not exceed the need gap.

People can also fulfil their *need gap* with *legitimate targets* along with some illegitimate ones, but usually we call them 'normal people with no deviance', because it is very rare that we come across people who commit zero crime. Some people disobey traffic laws and drive faster than the law allows or they fail to declare all tax responsibilities or tell their employer that they were ill, while indeed they can still work.

This is why many of the *illegal targets* for normal people are 'normal', because the state of people with no crime is almost unachievable. We can focus on the big crimes

of normal people, for the sake of parsimony and ease of understanding and comprehension.

The need gap can definitely be filled by legitimate targets by the individuals who determine their positions correctly (that their *actual real* and *ideal perceived real selves* are equal, that they see themselves very close to where the society sees them) without involving any criminal activity.

When their *perceived actual self* is higher than their *real actual self* though (we coded this status as '*haste*'), they may commit relatively minor crimes, that is, crimes with relatively smaller values compared to their *need gaps* (increasing proportionately to their distance from their *actual self*).

If these *hasty* people also define ideal selves that are more than 1 SD (standard deviation) away from their real actual self though (we coded this status as '*greed*'), we may argue that these motivated, *hasty* and *greedy* (white-collar) individuals are likely to commit financial crimes. However, these vulnerable people still earn legitimate money and fill some of their need gap with this earning. Thus, we can deduce that the probability of committing financial crime for such individuals is limited to the part of the *need gap* that has not been filled by *legitimate targets*.

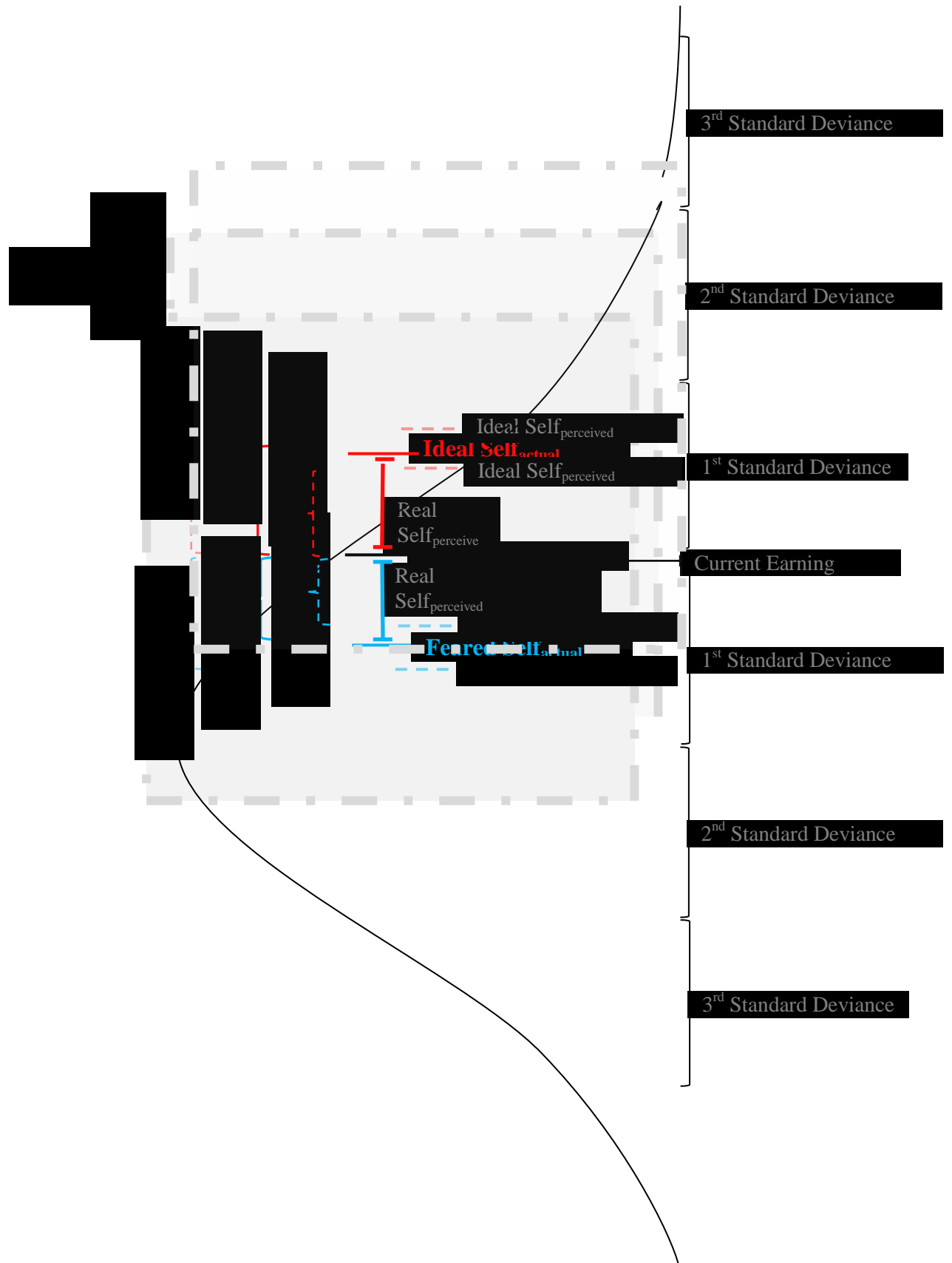
Inversely, we may also argue that this *remaining part of the need gap is very likely to be filled by illegitimate targets and nothing else because there is a good reason why the society puts these targets one SD away*; because they are not really likely to be reached in normal, standard circumstances, standard time constraints, by *legitimate targets*¹²³.

Nevertheless, attractive targets with very low guarding can still induce some *patient*, content individuals. So, the process of becoming criminals is a rather complex and multi-attributed, multi-faceted dynamic process.

We may summarise the relationship between categories of codes up to now in the following Figure 6.30:

¹²³ Our discourse is relatively positivist in some parts but we are aware that the crime motivation is not really very deterministic. When we take the other dimensions of the utility into consideration, we see that the deterministic nature of the discourse in the text is diminished substantively. The researcher is aware that people are not software controlled machines, theories with error rate of zero or close to zero are not realistic.

Figure 6.30: Motivation Process under Normal Circumstances



The thresholds we mention in this part are not restricted to normal, standard societies only. There are very well known examples of (mathematically and statistically) non-normal societies and the process changes slightly under such environments.

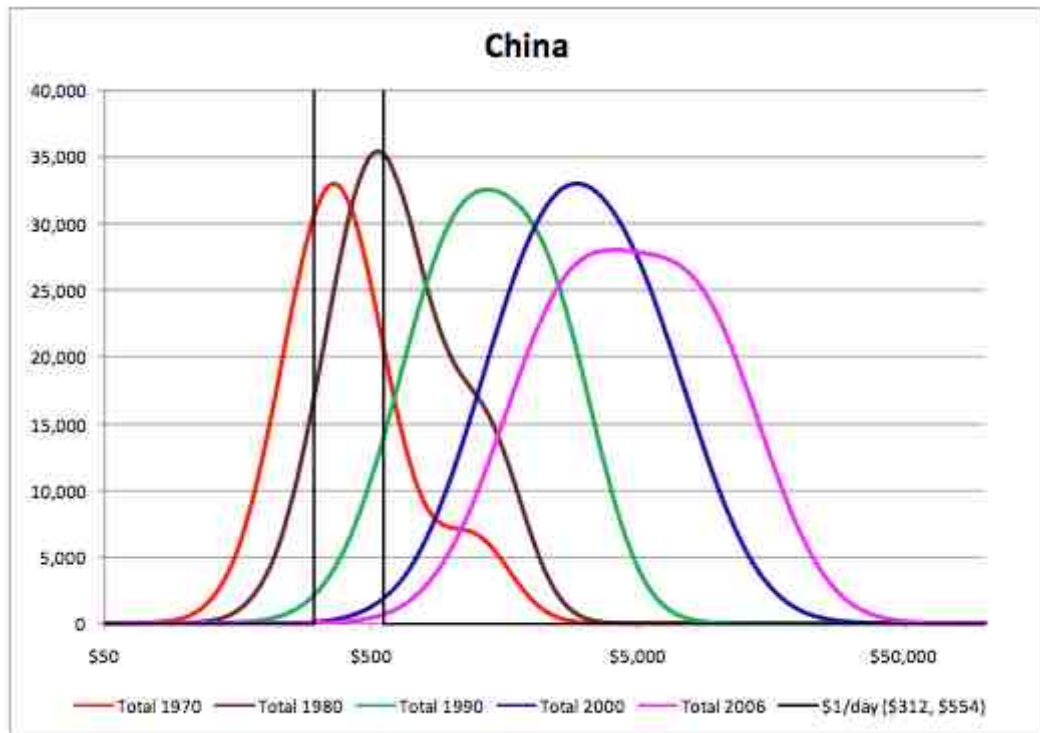
6.3.2.3 Dynamicity under high/low kurtosis environments

Since the 1970s, in China, the kurtosis of the income distribution has been getting lower, as income is distributed more widely, which translates into more incentives for the people to reach new products in recently available markets in China. Around the 1970s and 1980s though, the kurtosis of the normal distribution was so high that there were almost no real variations in the market, as shown in Figure 6.31. This is why we would expect less financial criminality in this society because everyone is financially alike and there are no big incentives to work for unavailable products in non-existent markets.

According to Figure 6.31, in the 1980s close to 70% of the Chinese population had only \$1,000 income and the whole population had only \$5,000 income discrepancy. In such a society people have really no *material* incentive to work because of the high kurtosis of the income distribution.

This is the typical income distribution of a socialist financial system but we need to be cautious about the WCC's opportunity space in this graph because it is interestingly high. Arguably the shapes in the 1970s and 1980s depict the favoured Communist party members. Their disproportionate number forces us to analyse WCC further before jumping to quick conclusions about the vulnerability levels of financial systems.

Figure 6.31: Chinese Income Distribution 1970 – 2006



Source: Word Press (2012)

As seen in Figure 6.32, people’s efforts, including those of white-collar criminals, do not return anything proportional to their efforts and the risks they take in such socio-economic circumstances and thus we would expect less general motivation in such societies compared to societies with normal distributions.

On the other hand, as the kurtosis gets lower, the social, relative value of the wealth continues to exist, even in excess, and people are very easily motivated because of a great variety in richness and poorness as well, as seen in Figure 6.33.

From a theoretical viewpoint then, one can argue that the kurtosis of an ideal socio-economic distribution should not be very high or low.

Figure 6.32: Consequences of Various Kurtoses in Distribution of Socio-Economic Utilities

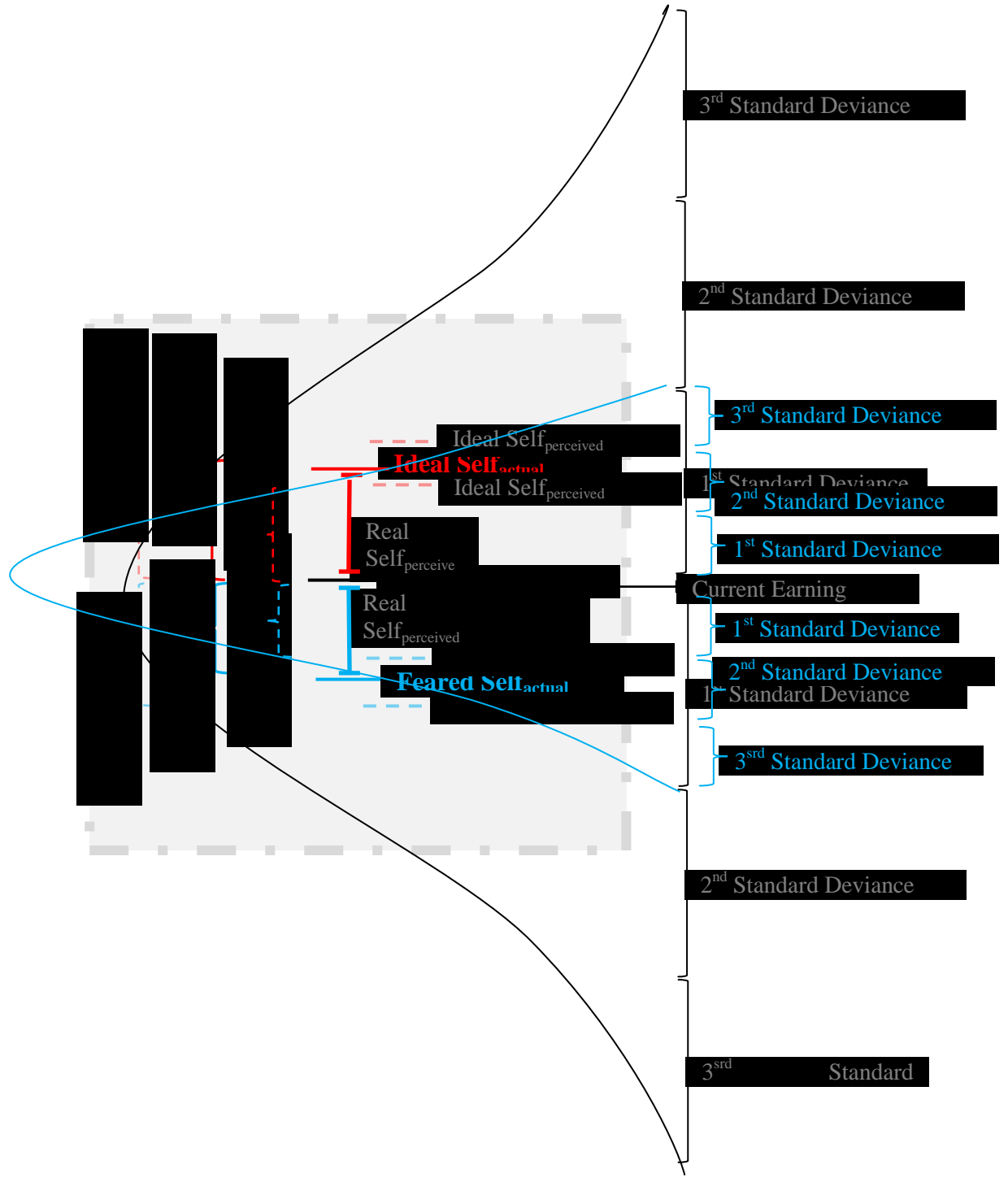
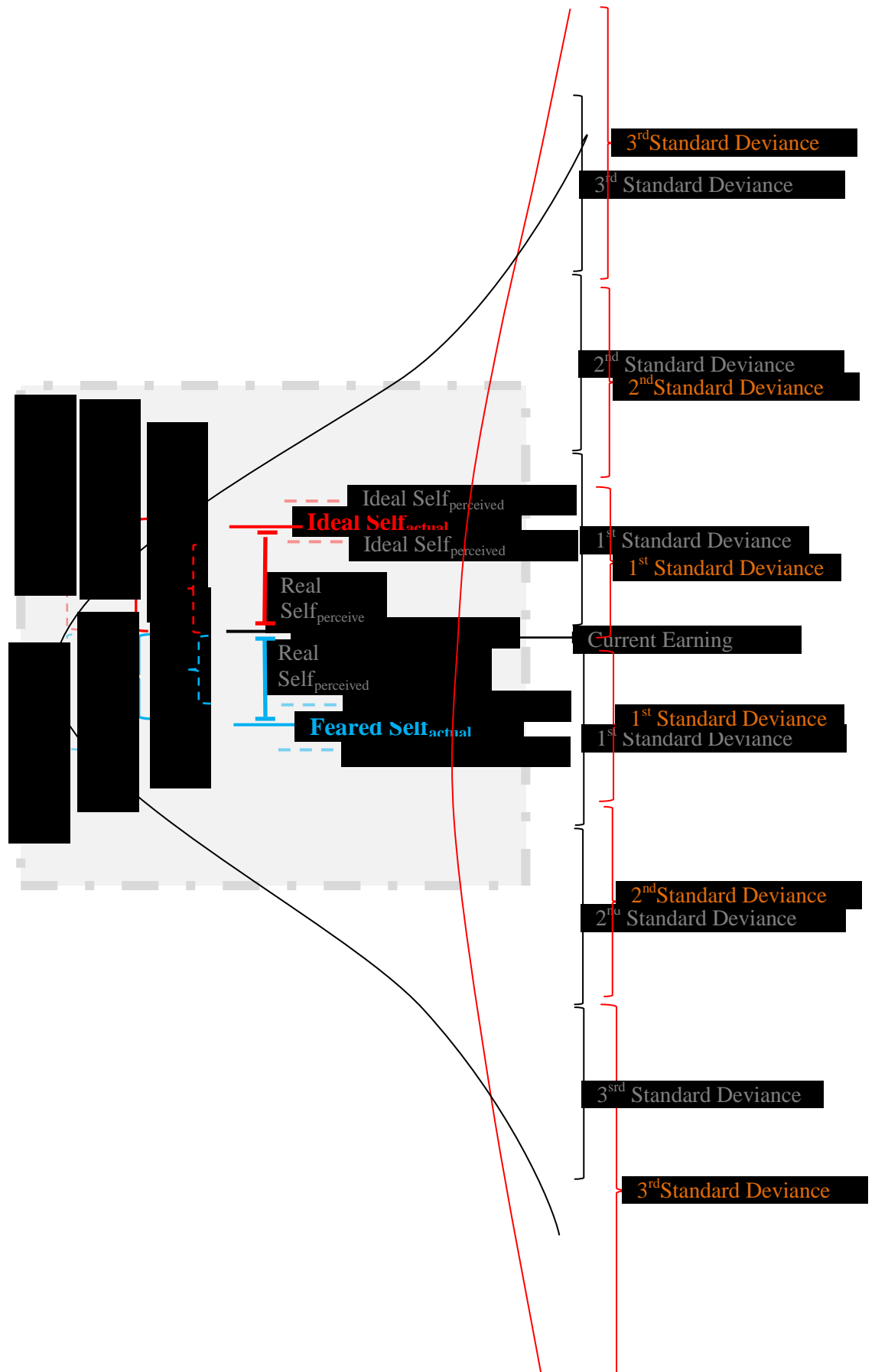


Figure 6.33: Low Kurtosis Systems

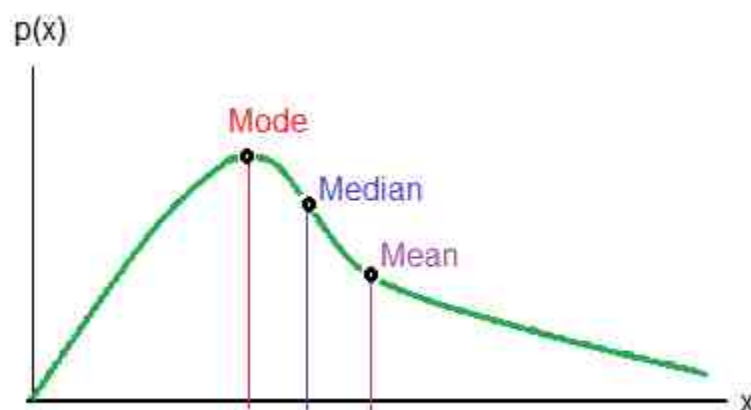


What matters in these analyses is the right hand side of the distribution (upper tail in our graphs), because we study white-collar criminals. Analysis of other parts of the distribution may reveal knowledge about other kinds of crime but what matters for this specific study is the variation after the first positive standard deviation.

6.3.2.4 Dynamicity under non-normal environments

Abnormal economic environments (for financial crimes) can be denoted by skewed and/or distorted normal distribution. Since the characteristics of such distributions are different than standard normal distribution it is better to first give the main parameters of asymmetric distributions shown in Figure 6.34. Nevertheless, it is still relatively correct that, *ceteris paribus*, as the kurtosis gets lower, individuals in these socio-economic societies become more alert to the stimulus, they are more easily tempted by the opportunity and deterred by punishments. This factor, singlehandedly, does not affect crime vulnerability though.

Figure 6.34: Main parameters of Asymmetric Distributions

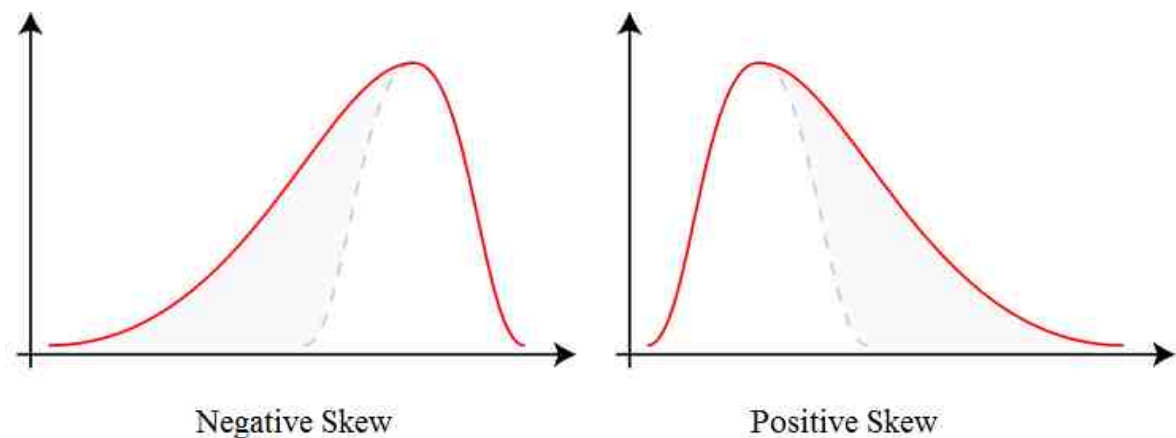


Non-normal distributions are not mature in the statistics and mathematics literature yet. “Many textbooks teach a rule of thumb stating that the mean is at the right of the median under right skew, and left of the median under left skew” (von Hippel, 2005: 2) as shown in Figure 6.34. But:

This rule fails with surprising frequency. It can fail in multimodal distributions, or in distributions where one tail is long but the other is heavy. Most commonly, though, the rule fails in discrete distributions where the areas to the left and right of the median are not equal. Such distributions not only contradict the textbook relationship between mean, median, and skew, they also contradict the textbook interpretation of the median. (von Hippel, 2005: 2)

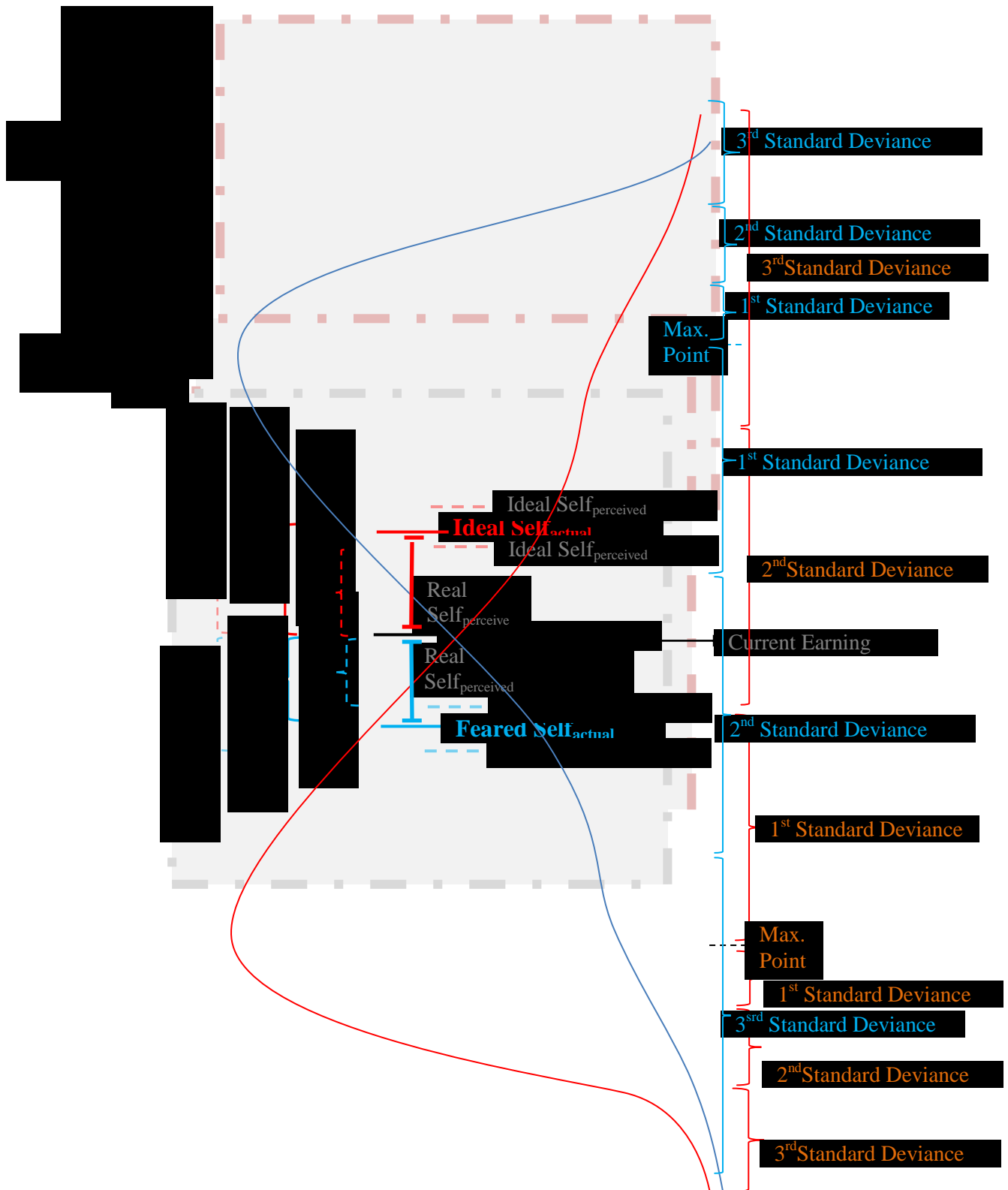
In such cases the parameters of the distributions are dynamic as shown below in Figure 6.35

Figure 6.35: Dynamic Parameters of Non-linear Distributions



Two normal forms of such societies are depicted in Figure 6.30 and 6.32, two non-normal forms are depicted in Figure 6.36. There are various characteristics of these societies but for our study, the most important distinction is that they have different variations. And the *variations are differently distributed when differently skewed*. The analysis of these variations is important for our theory because the comparative analysis of our extreme cases suggests that these different characteristics of variations, such as *standard deviations (SD) in wealth distribution, affect financial crime motivation*. The role of variation is depicted in Figure 6.36.

Figure 6.36: Major Concepts of the Theory Regarding Motivation and Their Adaptation to Different Socio-Economic Environments.



Let us now analyse these distorted normal distributions of wealth in different societies and their effects on human behaviour.

Dynamicity under Positively Skewed¹²⁴ Non-normal Environments

We use skewed non-normal wealth distributions to represent the wealth distributions of various financial systems. As mentioned before, Macionis and Plummer (2008: 306) provide the following percentages from Runciman (1990) about the social classes in Britain in Table 6.1. We can use the percentages in this table to graph the social classes in market societies as shown in Graph 6.1.

Table 6.1: Distribution of Social Classes in Britain

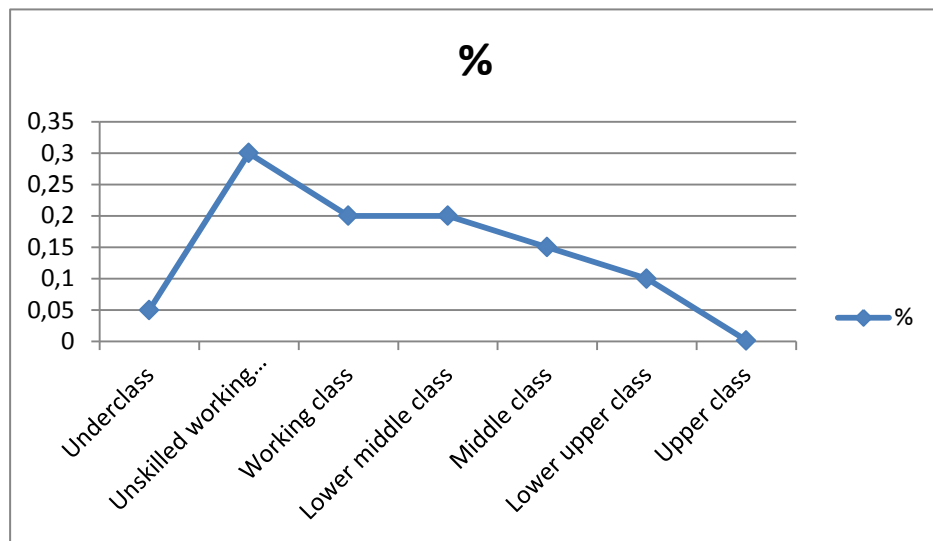
	Real Percentages
Upper class	.0015
Lower upper class	.10
Middle class	.15
Lower middle class	.20
Working class	.20
Unskilled working class	.30
Underclass	.05

Source: Percentages of Britain social classes from Runciman (1990)

Now we may graph this distribution to get the Graph 6.1 below. Please note that Graph 6.1 is very similar to a right-skewed non-normal distribution curve. Let us now elaborate this observation on other cases of market societies. Graph 6.2 is another example from the US and confirms our observation of right-skewed, non-normal wealth and social class distribution in the US where the variations of wealth are greater than the variations of poverty.

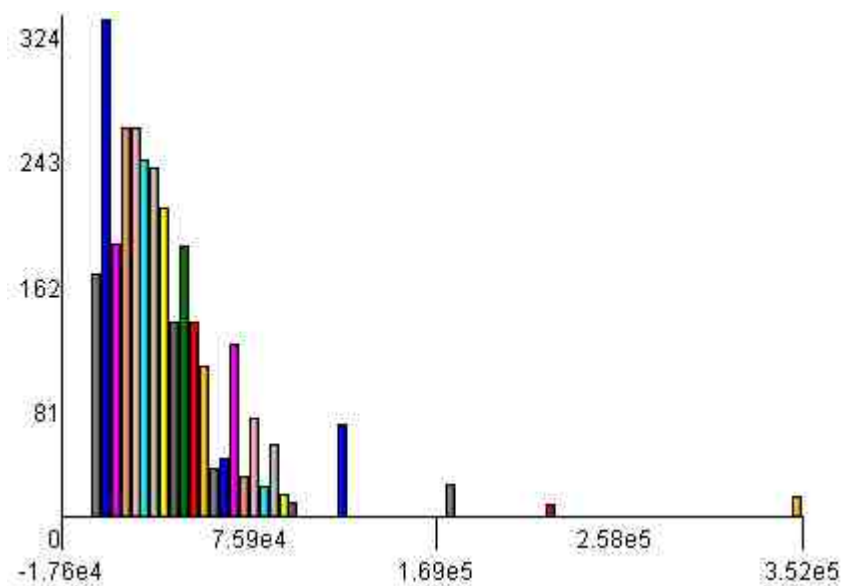
¹²⁴ These socio-cultural systems have more variations of rich compared to poor.

Graph 6.1: Distribution of Social Classes in Britain



Source: Percentages of Britain social classes from Runciman (1990)

Graph 6.2: Distribution of Personal Income in US in 2008



Source: US Census Bureau, 2011

Thus, in these socio-economic infrastructures, the median is not close to the average of the sum of all socio-economic gains as it is in normal (normally distributed) infrastructures. Standard deviations also do not repeat themselves in equal proportions but are denser when closer to the mean and broader when closer to the skewed tail of the distribution.

Thus, in our case, at right-skewed non-normal distributions, an *average* offender has a much bigger need-gap and much smaller fear-gap compared to the normal infrastructures because all the selves are relative, are socially constructed and meaningful when in comparison to someone else.

For instance, an administrative worker in a corporation who envies the nearest social strata of the society, probably his/her first or second manager (depending on the circumstances) would have a bigger need gap in social infrastructures where the socio-economic distributions are non-normal and right-skewed because one standard deviation from his/her position to the next (*i.e.* the position where his/her manager resides socio-economically) is bigger compared both to the same interval in normal distribution and to his/her fear gap. In societies with normally distributed socio-economic conditions though, standard *need gaps* and standard *fear gaps* are equal. Thus, in societies with positively skewed socio-economic conditions *fear gaps* were smaller compared to the *need gaps*, which makes individuals more motivated and relatively more fearless, and take more risks. In negatively skewed societies, on the other hand, *fear gaps* are bigger than *need gaps* and this fact makes individuals more fearful, less motivated and take fewer risks.

Naturally, as the magnitude of skewedness get bigger the comparative discrepancy between these distributions and normal distribution gets bigger. More importantly, the discrepancy between the sizes of the *need gaps* and *fear gaps* of the compared individuals in those systems also gets bigger and in positively skewed societies intensifies the risk taking behaviour even more greatly

Inversely though, fear-gaps of the *average* offenders in the same infrastructure would be narrower compared to the societies with normally distributed socio-economic infrastructures because all the selves and thus all the related gaps are socially constructed. For instance, an administrative worker in a corporation would have less fear of losing utility (legal, illegal and a-legal, *i.e.* losing his/her job) compared to the same worker in a society with normal infrastructures because standard deviations are narrower compared to the normal infrastructures. Thus, the gaps between the people who he/she is afraid to be like (*i.e.* wage labourers in factories) and their current positions are narrower in left-skewed infrastructures. In such cases, offenders have less to be afraid of apparently because the majority of the society is in very similar

positions and stigmatization from the society is very unlikely.

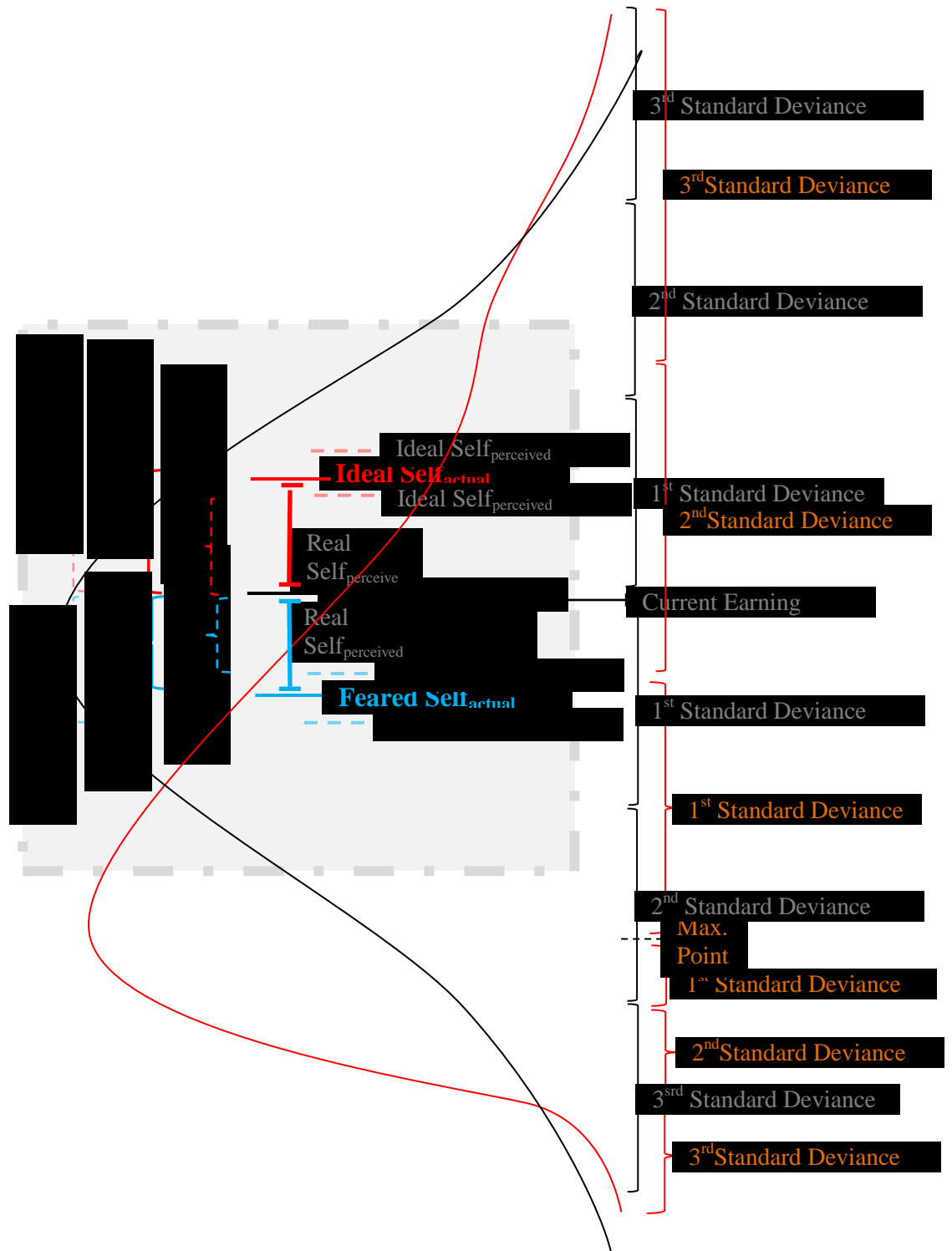
Indeed, this reasoning, when combined with the opportunity spaces in modern societies, may explain much of the deviance in modern societies. All the same, we are not focusing on the average offenders, but white-collar criminals or socio-economically *higher strata* of the society. Thus, we need to narrow down our observation to the rightmost side of the distributions but the main observation does not differ much in this part of the picture either.

When we go further right, in societies with positively skewed socio-economic conditions, the standard deviations get bigger compared to the points closer to the dynamic mean or median in the same non-normal, positively skewed distributions. In these societies, the magnitude of the discrepancy between the *need gap* and the *fear gap* increases as we diverge from the dynamic mean and median.

In left-skewed non-normal financial infrastructures though, the effects of the infrastructure are in reverse for the rightmost part of the distributions. That means, in such societies people have much to fear (have bigger fear gaps) and are less motivated to earn, because the closest standard deviation towards the positive side does not differ much but the closest one towards *legal*, *illegal* and *a-legal* targets on the negative side does. In such socio-economic conditions, people do not like taking risk, they are less motivated compared to the people in the right-skewed socio-economic conditions.

Now let us discuss the consequences of our dynamic and adaptive model of right-skewed distribution of socio-economic utilities (see: Figure 6.37):

Figure 6.37: Right (Positively)-Skewed Distribution of Socio-Economic Utilities



Please note that in the case of left-skewed wealth distribution, the variance increases when we move towards the positive end of the distribution. This is a crucial point for carrying our motivation model to the comparative financial systems and for showing the social dynamics of the motivation along with its psychological dynamics, analyzed beforehand, because our analysis shows that there is a social reason behind the motivational differences between different societies.

Since the variance is increasing, compared to the standard normal distribution of wealth¹²⁵, we would expect increasingly more motivation from the individuals who reside at the positive end of the wealth distribution. However, unlike standard distributions, in right-skewed distributions individuals have to work even harder in order to reach higher standard deviations which get bigger while moving away from their initial position towards the right end of the distribution and attract the individual into a spiral twister.

In such societies, we expect more financial crime, because compared to the societies of normally distributed wealth these societies show a rich variety of targets of self-realization to the public,¹²⁶ which is not indeed possible in the societies of normal wealth distribution or societies of left-skewed wealth distribution.

If the succeeding intervals between standard deviations are larger compared to the earlier ones (*i.e.* $SD_3 - SD_2 > SD_2 - SD_1 > SD_1$), we expect a moving, building crime motivation that is proportional to the volume of the interval as the white collar criminal moves towards the right hand side of the distribution.

Hence, using this knowledge, one may compare the motivational differences between different systems and sort them. If, for instance, the intervals between succeeding standard deviations of system *X* are getting larger but getting larger slowly, compared to another system *Y* (*i.e.*: $SD_3 - SD_2 > SD_2 - SD_1 > SD_1$ in System *X* is $7 > 5 > 3$ but in System *Y* it is $3 > 2 > 1$) one may argue that individuals in System *X* are more

¹²⁵ This distribution must be used as a standard in this analysis as well because every psychological, social, biological, developmental ability, quality, defect etc. is normally distributed and there is no reason that the wealth would be distributed non-normally.

¹²⁶ Since the society is structured accordingly, there are products and markets for the super-rich in such societies (BBC 2, 7 October 2008) and these products create a higher level of incentive, available utility and thus motivation for individuals. Other societies which are constructed differently do not have products like human skulls ornamented by precious jewelry because there is no market and no buyer. Thus, there is no incentive to produce such products, nor a reason to be motivated to own them.

motivated than in system *Y*.

Regardless of whether the distribution is right-skewed, left-skewed or not skewed, looking at the variation only at the right hand side of the distribution we may determine the macro level of the motivation for white-collar-criminals only.

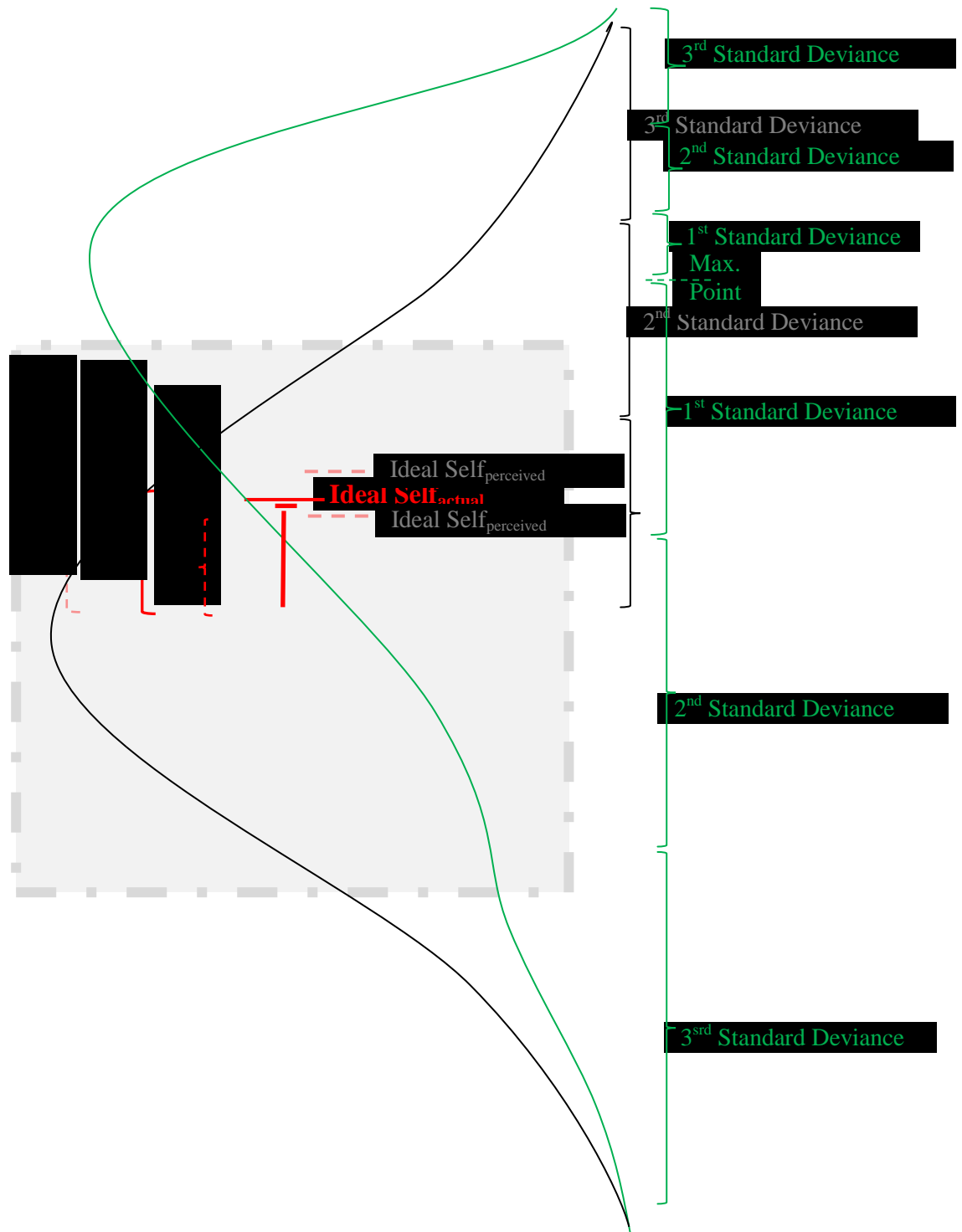
One may reach some conclusions and generalizations based on these syntheses, such as that the systems with right skewed distributions are more motivated than left-skewed distributions or that the systems with lower kurtosis are more motivated compared to the systems with higher kurtosis, but we need to keep in mind that these generalizations are theoretical and all generalizations are wrong at least in minor issues.

This is why this research leads us to synthesise that the socio-economic distributions should be partially analysed for specific parts of the research. In fact, almost invariably, the data sets we analyse never produce a perfect curve and every detail that distorts the smoothness of the distribution hides a valuable piece of information about the system¹²⁷.

As for the left-skewed socio-economic distributions, we would expect little motivation as depicted in Figure 6.38. Since the focus of this research is white collar people, Figure 6.38 puts them on the upper side of the green, left-skewed distribution, after the distribution peaks, especially after the 1 standard deviation above maximum point. Compared to the same corresponding position of the normal distribution, which is coloured black, the green, left-skewed distribution's standard deviations are smaller. For instance all positive standard deviations in the left-skewed distribution can almost fit into one standard deviation of the normal distribution because the normal distribution's mean is far behind the left-skewed distribution. Thus, relatively, richness begins at later wealth stages in left-skewed distributions and has smaller varieties. This means that white collar people in left-skewed societies have relatively smaller distances, socio-economic positions, to travel in order to achieve the same - relative - material positions in the society.

¹²⁷ Indeed, from the point of view of the complexity theory, this is the expectation: the iterative, repeating, fractal patterns.

Figure 6.38: Left-Skewed- Distribution of Socio-Economic Utilities



6.4 GUARDING FORCES AGAINST THE MOTIVATION

This section turns the discussion in this modelling chapter to ‘guardian’. Guardians have certain characteristics, which affect different parts of the dynamic deviance process and produce different preventive effects on the crime as shown in Figure 6.39. Let us explain these characteristics of the *guardians*:

(i) *The Ratio of Getting Caught (Pre-Crime Intervention)*: If the guardians are successful in their prevention and when the risk of getting caught is high, offenders may cease committing crime. This is extensively discussed in the RCT literature from the point of view of the offender.

(ii) *Normalization (Delivering Justice)*: Justice, when successfully delivered, brings about peacefulness and normalization to the society and to individuals. Because criminals, unfairly, gain things from others and unless these gains return to the society, a gap occurs between the new, unjust state of the society and the old one. This new status of the society, depending on the magnitude of the discrepancy, may convince individuals that the standard ideal self is not reachable by standard expectations because of the illegal interventions, jumps in the queue. As individuals observe injustice, they increase their need gaps by defining higher ideal selves by the now rationalized illegal earnings. Justice may help decrease these gaps and may normalize society, otherwise, *ceteris paribus*, crime self-propagates. If for instance nobody is prosecuted for corruption in a given society, officers’ commercial behaviours adapt to this socio-economic environment and they assume that their salary is more than official documents declare.

(iii) *Punishing with Certainty*: Certainty of the punishment is one of the most important parameters for the rational offender because it includes the level of the risks of receiving the punishment. The certainty of the punishment is directly involved in the decision to commit crime but only after the risk of getting caught.

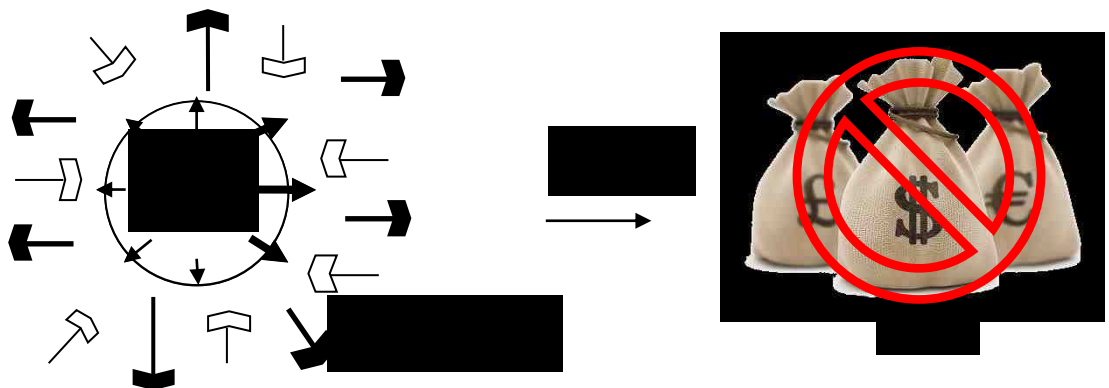
(iv) *Punishing with Severity*: If a specific guardian has the ability of punishing, and doing it with certainty, this is usually understood by the society before the crime occurs; the amount of punishment forms the ‘fear gap’ and after the crime occurs, this fear gap is readjusted and becomes stable – *ceteris paribus* - through the experienced

punishment. One can perceive the fear gap as the accumulated wealth, the possessions of the individuals as well. From the point of view of a materialistically dominated society, the punishment is directed against this wealth and many forms of punishment are tantamount to either reduction in wealth or the inability to enjoy it, when imprisoned for instance¹²⁸.

(v) *Punishing with Celerity*: Since many financial offenders suffer ‘*impatience*’ and ‘*haste*’ they rationalize the celerity of the punishment especially as a result of their short time focus. Research shows that offenders take celerity more seriously than certainty and severity. Thus, they may quit committing crime if the punishment is soon and *vice-versa*.

(vi) *Continuous Intervention*: Some guardians’ service is temporary while others’ is continuous. If the guardians are *passive* and *proactive* in nature or continuous, it helps decrease the volume of ‘*haste*’ before the crime.

Figure 6.39: Various Forces Effecting the Motivation

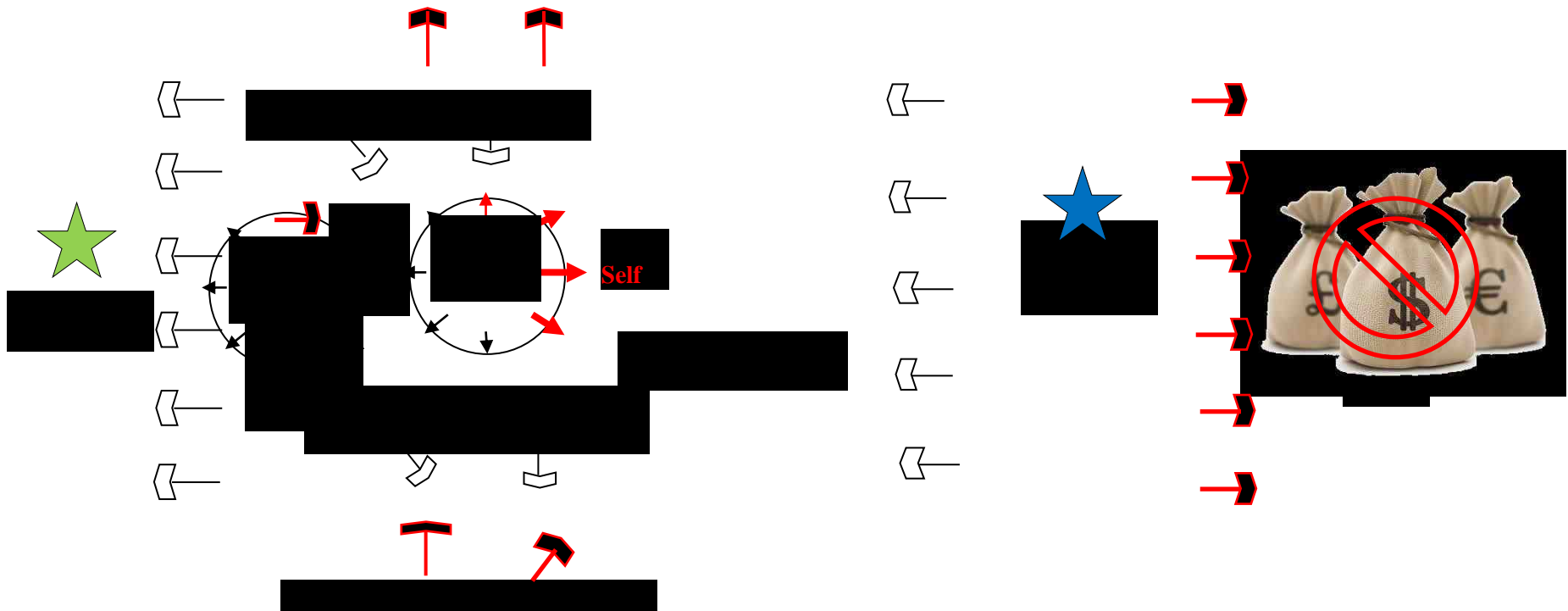


¹²⁸ In other dominant dimensions of the multi-dimensional utility function, the fear gap consists of non-material belongings and usually the punishment targets such gains (i.e. reward or *sawab* or social credit) but since this research is FWWC we do not include these discussions in this text. Nevertheless, they can be integrated into this theory by further research to generalize this theory into a general theory of crime including crimes other than financial crimes.

Looking at our earlier analogy of forces affecting the would-be-offender, we may separate and differentiate these forces as shown in Figure 6.40. For instance, the positive characteristics of the guardians mentioned above can be depicted as the arrows pointing left between the target and the individual. The arrows at the left side of the individual, that is not between the individual and the target, stand for the informal guardians who act before the crime situation, its time and place. Those guardians can be referred to as proactive guardians but active guardians such as police also have minor proactive guarding capacity. When the defensive forces are higher than the attracting forces to the crime target, the environmental effect *adds on* to the internal motivation of the individual and to the motivation caused by the financial and economic systems with all of its non-linear implications for certain strata.

Arrows pointing up and down are depicted thus because the financial and economic conditions are not about the criminal behaviour *per se* but about motivation in more general terms. Nevertheless, we mean that individuals under the effect or pressure of these forces may, if the circumstances allow, more easily commit financial crime in higher positions in Figure 6.39 and 6.40.

Figure 6.40: Separation and Identification of the Forces Affecting the Offender



Now let us analyse the guarding forces in this figure by beginning with environmental guarding forces, ethics and informal and formal guardians.

6.4.1 Ethics

Ethics can be described as an internal law. It applies a pre-crime, preventive force on would-be offenders and plays a role in rational decision making. It is a guarding force against financial crimes through norms and social pressures.

Morality and ethics are the studies of ‘rights’ and ‘wrongs’. They are used¹²⁹ and applied¹³⁰ interchangeably; however, *ethics* ”refers to the process of determining right and wrong” and *morality* “refers to the actual content of right and wrong”, the substance, “the end result of ethical deliberation” (Rae, 2000). Ethics is sometimes called ‘moral philosophy’, implying an attempt to put the substance in a form, to investigate the rules of the morality and moral decision making.

According to Weiss (1994), there are mainly six ethical systems, namely, *relativism*, *utilitarianism*, *universalism*, *rights*, *distributive justice*, *ultimate law*. Utilitarianism is more compatible with RCT but we need to take into account the extreme ethical claims of our cases in this study. This is not possible unless we use the expanded version of the classical utility theory with the capacity of multiple dimensions of calculation. We present this multidimensional theory above.

Basically there are two main claims about ethics in business. The first claim is the relevance of ‘non-instrumental’ ethics (Quinn and Jones, 2010: 16), that is, “whether ethical behaviour is profitable or not it must be adhered to” (Solomon 2010: 16). And the second claim is that ethics is relevant to business only if it is profitable. For instance, Sternberg (2004: 52, emphasis added) provides two criteria with one pretext: “Corporate conduct is ethical if it is directed at the *corporate objective* and respects ‘distributive justice¹³¹’ and ‘ordinary decency¹³²’”.

¹²⁹ Especially in religious cultures, such as Islamic culture, ‘ethics’ becomes a secondary concern of people and when used, usually refer to the moral rules and customs.

¹³⁰ In some socialist countries, there was an attempt to install socialist ethics in the society as moral rules (Hamburg and The Teaching Company, 1997).

¹³¹ That “those who contribute most to achieving the objective of the organization deserve most from the organization” (Sternberg, 2004: 52).

¹³² That corporate activities are “conducted with honesty” (Sternberg, 2004: 52).

Depending on the society's choice of these ethical bases, their guarding capacity changes. Apparently, the second choice invites more financial crime.

6.4.2 Formal Proactive Guardians

All institutions that use a policing force on the financial system such as the Securities and Exchange Commission, FBI and IRS in the United States, the State Administration for Industry and Commerce of China, the Shariah Advisory Council (SAC) of Malaysia and the like, are formal guardians. Formal guardians are the last resort before the actual crime takes place. If the offender passes the formal guardians it is very likely that they will commit crime. This is why formal guardians have little effect on crime prevention.

There are many experiments to confirm this fact. One of the most cited researches was the Kansas City Patrol Experiment, which revealed that formal police have little effect on crime rates, if any. This is reasonable, when we return to our depiction of the forces affecting crime and the long and complex process of becoming deviant. In the course of this complex process, there are numerous institutions, individuals, organizations *etc.* that affect criminality either positively or negatively.

Formal guardians cannot always react against financial crimes. Especially in the era of electronic markets and lightspeed finance designed by mathematics, computer programming and quantum physicist prodigies and professors, it may not even be possible to realise that a crime has indeed been committed, because government agencies and regulator do not and cannot employ them.

For the WCC, the number and efficiency of the policing and/or formally guarding financial institutions against WCCs drop significantly. Competition crime prevention can be a good example to show this fact (Rodger and Macculloch, 2001). These accusations bring to the discussion the arguments about power and its checks and balances, which are questionable in all financial systems.

Especially against financial white-collar crime the number of 'capable' guardians is few. Their number and ability affect financial crime vulnerability in a considerable way.

6.4.3 Informal Proactive Guardians

Many criminologists agree that perceived *informal* sanctions directed by friends, family members, relatives, neighbours, colleagues and peers rather than formal ones from government and other formal institutions have the greatest effect of deterrence (Hollinger and Clark, 1983; Grasmick and Bursik, 1990; Williams and Hawkins, 1989; Paternoster, 1989). Among them, the most effective ones are the intimate handlers. Intimate handlers are the closest people to the criminal.

The discussion of intimate handlers indeed brings about all the discussions of the social criminology theories such as social structure and social process theories¹³³. Following from their arguments, obviously, qualities of intimate handlers are the main concern. As social learning theory claims, people raised in a culture where financial crime is the norm are likely to commit financial crime (Dönmezer, 1994).

From the reverse side though, in ethical social environments where the close friends and family members value, praise and encourage ethical behaviours, it is harder to commit financial crimes.

Interpreting the theoretical foundations of RCT, one may argue that RCT not only presupposes crime motivation, but also presupposes the existence of capable guardians. Indeed, this is what we experience in everyday life. One would deposit his/her money into a bank account and use banks and similar institutions as a safeguarding mechanism.

Offenders, then, are under the negative forces of the crime motivation and the positive effects of the capable guardians in relation to financial crimes. As motivational forces overcome the forces of capable guardians then the mere existence of vulnerable financial assets would produce more delinquency; however, if motivational negative forces and guarding positive forces are balanced, then mere existence of financial opportunity would not produce financial crimes (see: Figure 6.41).

¹³³ More information about these theories is available in Chapter 3.

Figure 6.41: Various Codes of Grounded Theory, Their Relations and Their Effects to the Motivated Offender

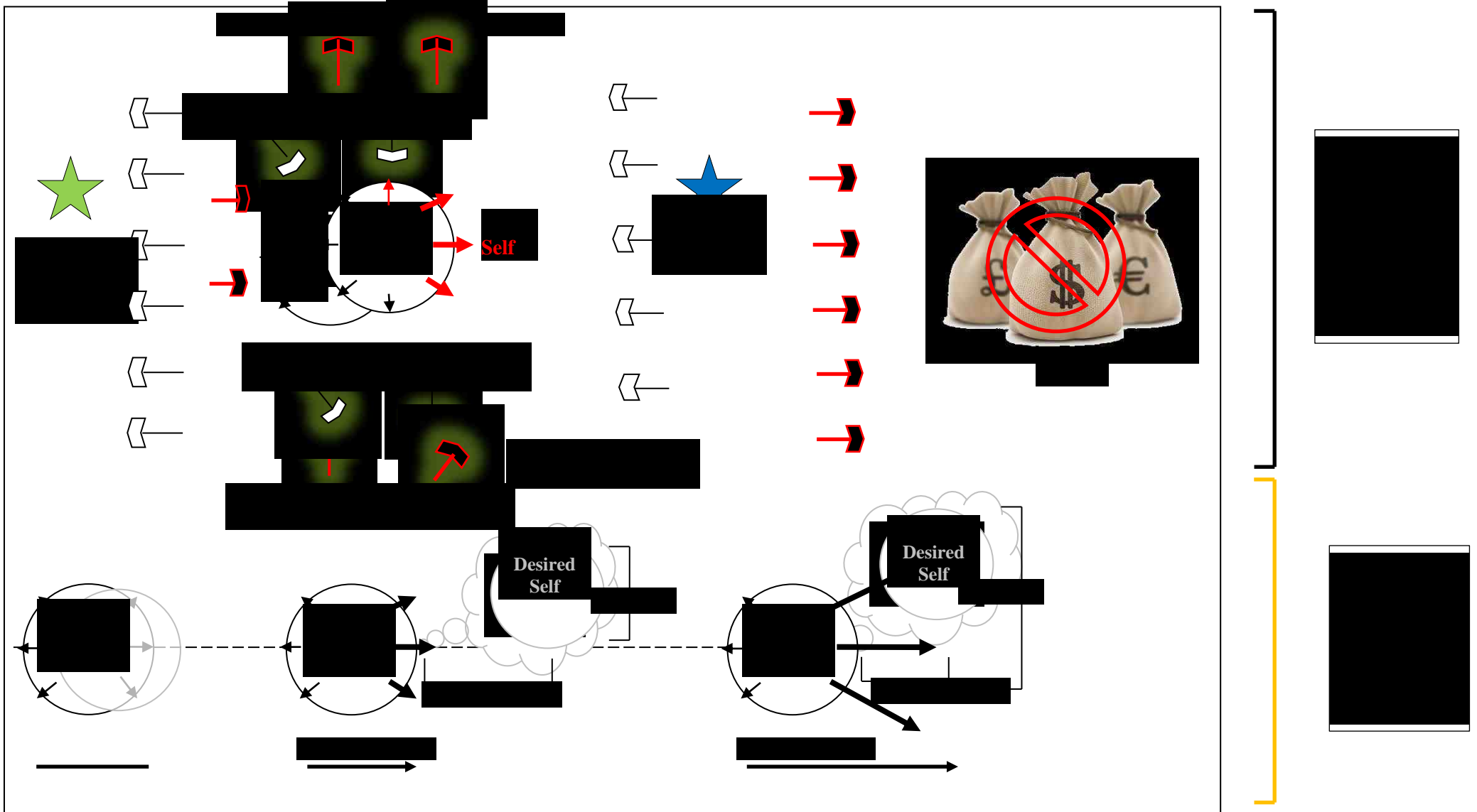


Figure 6.41 depicts all the forces that are keeping the individual away from the crime both directly and indirectly with the empty arrow and all the forces badly affecting the individual in terms of financial white collar crime vulnerability are shown with full arrows.

Figure 6.41 is important, because it combines the effects of the *guardians* in two separate forms, namely active (between the individual and the target) and passive guardians (denoted with blue and green stars respectively) with the inner self-motivations, self-perception and perception errors. Furthermore, Figure 6.41 depicts the environmental forces of financial and economic conditions on motivation in certain strata of the society as well. These effects are depicted in glowing arrows. Throughout the Chapter these effects are depicted by normal and non-normal distributions of wealth and some of the characteristics of those distributions such as standard variance in normally and non-normally distributed wealth and income.

Nevertheless, there are many other effects on the financial white collar criminals, some of which do not appear in this depiction for the sake of parsimony and comprehension, but details of other parameters and the relationship between them and other parameters mentioned and not mentioned in this Chapter are presented in Appendix A, the formal, step-by-step coding of the grounded theory methodology. To give an example, the value of the target, which is very important for the would-be criminal, does not appear in Figure 6.41 nor the expectation of the offender about the punishment coming true.

6.5 TARGETS AND OPPORTUNITY SPACES

Financial crimes are committed to reach certain financial targets. All targets have their values and popularity levels. The most important financial target is the ‘money’, but financial criminals do not always target money in different forms. Sometimes they are after avoidance of possible losses (*i.e.* tax evasion) or after a dominant position in the market they operate in and not after the money *per se*.

All the achieved targets, both *legitimate (real)* and *illegitimate (real)* are added to the *real actual (material) self* and thus decrease the *need gap* between *perceived actual (material) self* and *perceived ideal (material) self*. We explained most of these codes

while presenting the motivation and offenders earlier.

Target is a category in our grounded theory and ‘properties’ of the ‘category’ ‘*target*’ are three-fold: legitimate, illegitimate and a-legitimate target. A-legitimate target represents ordinary, periodic earnings such as monthly salaries. Properties of ‘perceived’ and ‘real’ legitimate and a-legitimate targets can be explained as well but we only discuss the properties of illegitimate targets in this study.

According to the classical RCT the target has the following characteristics: *value, inertia, visibility, accessibility*. We prefer dividing these characteristics into two: *target value and target vulnerability* and present vulnerability as a function of value, accessibility, visibility, inertia and other characteristics of both material targets and all other possible victims because target value has more than one function in the deviance process.

This part of the attempted grounded theory deserves further research for more concrete results much of which are available under the umbrella of classical rational choice theories. This study suggests that further details such as whether the targets are *owned by certain bodies, their convertibility* and the *characteristics of victims*, such as ‘*ability to react*’ along with target characteristics can be some of the additional parameters of the function, *accessibility*. Let us explain these characteristics of the targets in short.

(i) *Value (attractiveness)*, according to Burke (2006: 46) is “calculated from the subjective rational perspective of the offender”.

Target values are also relative, since the illegitimate-target value error is different from offender to offender, there is no agreed upon perceived value of any target. Miller (2006: 82) agrees that according to the RCT, value depends on the offender who assesses the target and not on the actual economic value of the target.

Characteristics of the targets and of the offenders have interconnections. According to Morrison (2002: 314), operations of global financial markets “are on a scale which dwarf many national governments: world foreign exchanges deal with an average \$1,490 billion every day”. This is why offenders have big incentives to attack financial markets (*i.e.* to manipulate them).

Since value is the most important factor about the targets, it deserves more attention. Among the categories of targets (*legitimate*, *illegitimate* and *a-legitimate*), we focus our attention on *illegitimate targets* and those which have more than one value: *perceived*, that is before the crime or with the perception error, and *real*, that is after the crime or without the perception error.

(ii) *Convertibility* is also an important character of the targets, because even valuable targets may not be perceived to be valuable if not fully or partially convertible. Convertibility of any given financial target makes it more attractive and more valuable. For instance, more crime can be expected against dollar, euro and pounds compared with other currencies in international financial markets.

(iii) *Visibility* “identifies the person or property for attack” (Burke 2006: 46). Visibility is whether the offender knows the target is there (Miller, 2006: 82). In this sense, frequency of appearance of the financial targets can be considered as the visibility as well because the targets vary according to this characteristic too. For instance this character is necessary for distinguishing the systems in various *time spans*. For instance, “[t]he growth in global financial flows has outpaced both trade and output” (Held *et al.*, 1999: 320) in 1999 and the world’s total publicly traded equity in 2000 was more than \$20 trillion (New York Stock Exchange, 2000), but the frequency and thus the visibility has increased since then.

(iv) *Accessibility* of the targets increases the risk of attack (Burke 2006: 46). According to Miller (2006: 82), the accessibility is whether the offender has access to the target and the feasibility of retreat or escape.

Accessibility and inertia are very similar in our context, that is why we do not distinguish them, because according to Burke (2006: 46), inertia is “[t]he physical aspects of the person or property that impede or disrupt its suitability as a target”, and to Miller (2006: 82), the inertia can be exemplified by the *feelings* of the offender about his/her *ability* to get the target. We use another code, *expected probability* to represent this character but not in the context of targets.

(v) *Ownership* is another quality of the targets. For instance, if a specific target is owned by the public, criminals, being part of the public, may justify, although wrongly so, their criminal behaviour. Besides, corporations with complex ownership

structures such as the ones owned by the public via stock exchanges have many agency problems, many of which involve criminal behaviour, because then the managers have better access to the property they do not own.

In addition, complex ownership structures such as ‘pyramidal ownership’ make crime easier “where companies are ultimately owned, through complicated chains, by other companies” (Solomon, 2010: xxiv) but simpler ownership structures comparatively decrease the likelihood of the target being victimized. If owners live in minutes or hours (as the equities of the day traders), they may have no time to protect their property from crime though.

(vi) *Stability* of the targets has been an important factor in the era of high-frequency-finance. In modern finance, almost none of the financial assets maintain their value for more than a few days, even seconds for some. They have longer staying-time in the financial markets, but the period is getting shorter. In this very dynamic, busy market entry and exit of the financial assets and short life-periods it is easier to commit financial crime before the regulators even realise that crime took place.

(vii) Some targets or victims have the *ability to react* against the financial crimes. For instance companies whose equities are manipulated may react against the speculators and manipulators, but when they are monopolized (or when prices are fixed) they do not usually have the ability to react against the offender by themselves. This is why it is less risky to commit some of the financial crimes compared to others.

Target vulnerability is the formal code in our grounded theory, and it explains the ease of the targets for the offender. It is the probability of actually committed crime. Target vulnerability is determined by the characteristics of targets. Among the characteristics are; *value, accessibility, inertia, convertibility, visibility, ownership, stability, ability to react etc.* Target vulnerability consists of weak (0) or strong (1) characteristics that are serially affected by each other. When they are completely weak, with no effect, their value is zero (0) and when they are completely strong and solely determine the vulnerability their value is one (1) but it is usually between 0 and 1.

All the ‘target hardening’ literature in rational choice theories is relevant under this

category. These characteristics of the targets and victims along with the other concepts of environment and guardians, produce an *opportunity space* for crime. We modelled this concept and integrated it into our theory in the following part of the text.

6.5.1. Opportunity Spaces

There are many parameters of the ease and hardship of committing crime and our grounded theory compiles them under one encircling term, the code *opportunity space*. ‘Opportunity space’ (Yavuz, 2003), ‘opportunity structure’ (Wahlström and Peterson, 2006), ‘public sphere’ (Habermas, 1992) and other similar concepts have been used for a certain period of time in the literature, but these concepts have not been formed under an umbrella term which allows both macro and micro parameters in it. *Opportunity space* is a good candidate for such an effort, because it conveys the meaning better.

According to Yavuz (2003: ix) opportunity space includes “social and economic networks and vehicles ... and the dissemination of meaning, identity, and cultural codes”. Consulting the ‘opportunity structure’ definition of Wahlström and Peterson (2006), opportunity space can be redefined, for the purposes of this study, as the “circumstances that have an effect on the emergence, structure, scope and success” (McAdam *et al.*, 1996) of political, economic, financial actions. “What is distinctive about [this] theory is its emphasis on external structures” (Wahlström and Peterson, 2006: 364) influencing the actions, behaviours *etc.* of the agents under scrutiny.

Economic and financial systems organize their resources differently. They have different levels of efficiency, productivity, success, failure *etc.* although they all use almost the same kinds of resources (labour, land, capital, knowledge). These differences are likely to pose differences in opportunities in various contexts. For instance, the main fundamental organizations of the financial systems, financial institutions, are formed, operated and interact differently in different financial systems. Such differences *may* provide financial systems with different levels of crime opportunities too. This is very likely to be the case, but it is not easy to discuss whether they are dramatically different from each other. Opportunity space and its terminology solve this issue in the following Chapter 7.

In this study we mainly focus on employed¹³⁴, white-collar financial criminals who act in or around¹³⁵ a financial institution. Thus, institutional and/or individual *opportunities* are of paramount importance for our study, because they set a boundary around our main concept: ‘financial crimes’.

Politicians and businessmen usually see financial institutions in a national/international, competitive environment of different opportunities and constraints, which form many institutional/national/international *opportunity spaces*. In addition to institutional and economic opportunity spaces, social and political opportunity spaces are noteworthy in this context too, because “[e]conomic systems are social institutions, and social institutions are ... domains of *human behaviour* that answer to some identifiable range of *human needs*” (Arnold, 1994: 4; original emphasis). Seeing human behaviour as a product of human needs is indeed a widespread idea in many disciplines of academia. We refer to this concept while explaining the mechanisms of the motivation, above in the preceding section. For now, let us continue with the concept of ‘*opportunity spaces*’.

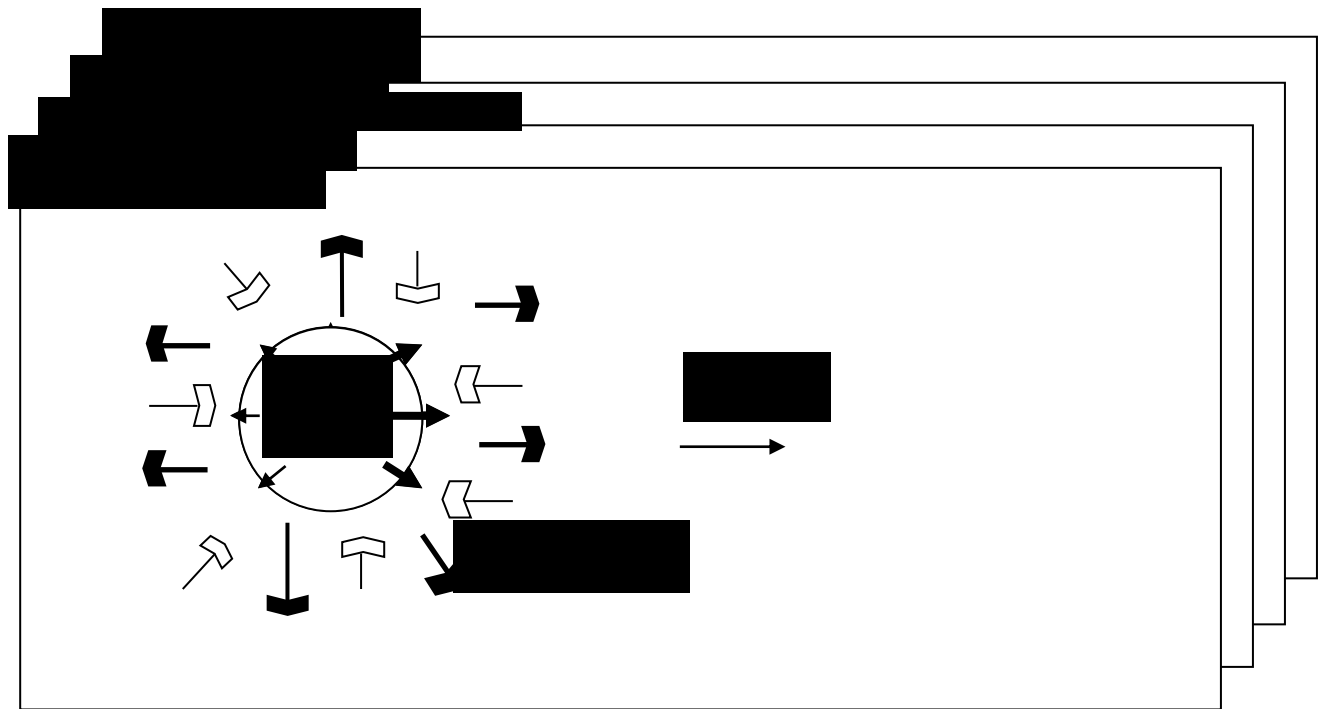
As mentioned, the plural form of the phrase refers to various systems (in different time-spaces), in our context economic and financial systems: socialist, market and fully/partially Islamized systems. Figure 6.42 can be seen as an analogical generalization of these four opportunity spaces and show some factors of them.

Figure 6.42 depicts an awareness of the distinct effects of various financial and economic environments. As is more explicitly depicted in Figure 6.45, every financial system has its own specific strengths and vulnerabilities against financial crimes unique to them. These characteristics can be mimicked but not exactly replicated. In Figure 6.42 the length of the opportunity spaces are equal because we focus on the same time-span, between 1980 and 2013. As is explained in the following parts of this Chapter, we use the plural ‘spaces’ because there is more than one distinct kind of abstract space that offers opportunities and difficulties for crime, such as political spaces that are vulnerable to financial white collar crime in for instance societies of no checks and balances.

¹³⁴By government, political party, corporation or self-employed.

¹³⁵ For instance accountants of certain firms are ‘in’ the institutions but politicians who provide illegal advantages to these firms are ‘around’ these financial institutions. In this specific example in market societies.

Figure 6.42: Main Components of Opportunity Spaces



Source: Inspired by Valenzuela *et al.*, (2010: 112)

Similarly, in Chapter 6, while introducing the financial systems, we showed in three figures that the *opportunity spaces* of the financial systems must be considerably different. As shown in Figure 6.42, *opportunity spaces* are outer environments of the individuals and institutions in financial markets and they affect them in many ways. As the arrows pointing in different directions suggest, *perceived* expectations, occasions and circumstances of the outside world have both *contracting* and *expanding* forces of certain behaviours¹³⁶, in our case the financial crime delinquency. We focus on the expanding forces in this part of the text. Contracting forces were discussed as formal and informal proactive guardians or ‘*passive capable guardians*’ above. ‘Active capable guardians’ are not really relevant to *motivation* and are exercisable after the emergence of the crime motivation. Indeed, active capable guardians are valid only at the time of the crime in action or very chronologically and spatially close it. For the details of active guardians in the process of becoming white collar criminals please refer to Appendix A.

¹³⁶ The same interpretation could partially be derived from a generic SWAT (strengths, weaknesses, advantages and threats) analysis which is proposed to be used to reach the opportunity space of *corporations* by Valenzuela *et al.* (2010), because ‘motivation’ and ‘success’ of criminal acts are different concepts.

Whether or not mere existence of financial opportunities produces financial crimes is one of the fundamental questions about the opportunity spaces. RCT does accept that crime occurs in these circumstances; however, when we realise the proactive guardians, such as ‘intimate others’, are indeed an unalienable part of crime motivation in a negative, discouraging way, they may, although it is unlikely, prevent crime even in the face of the opportunity. For materially dominated criminals it is not really likely though.

Indeed, the problem may be the use of improper motivation theories of psychology by the RCT. According to Cüceloğlu, (1996: 230), there are mainly five psychological theories of motivation¹³⁷. RCT’s implicit assumption is that *incentive theory* is the correct representation of deviant behaviour. According to this theory again, “*some of our behaviours stem from the awareness of environmental stimuli and with no biological base*” (Cüceloğlu, 1996: 230).

However, the use of Maslow’s (1971) theory of hierarchical needs would provide a better representation of the deviant behaviour, because Maslow assumes different human and animal behaviours (Cüceloğlu, 1996: 236). In this research, this translates into a theoretical power that is capable of explaining environmental stimulus in a dynamic, relativistic, non-discriminatory way.

Now let us first look into the varieties of opportunity spaces that help us build financial opportunity spaces, which eventually affect financial crime decision making processes.

Consequently, we may argue that there are discouraging (-) and encouraging or expanding (+) forces of opportunities and the ultimate level of opportunities are determined by the accumulated effects of those. We can denote these forces as *expanding forces* and *constraining forces*. Opportunity space is the sum¹³⁸ of these forces and it is always positive, because it is not realistic that constraining forces have the ability of completely erasing all possible opportunities of committing financial crime.

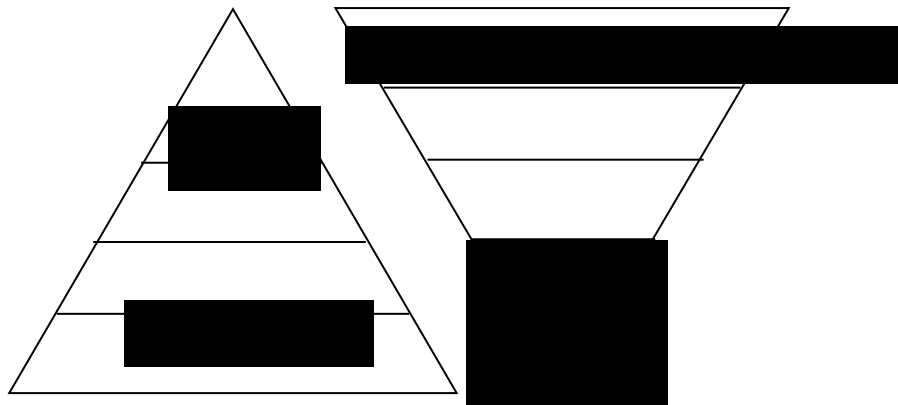
¹³⁷ Drive theory, incentive theory, optimal level of satisfaction theory, instinct theory and Maslow’s (1971) Theory of Hierarchical Levels of Need .

¹³⁸ Please note that one of them is always negative.

The volume of the FWCC opportunity has social implications. As we climb up the socio-economic structure in a given society, the volume of the opportunity for committing FWCC increases. At the lowest level, the opportunity for committing financial crime is closer to zero and every upper level provides a better opportunity space for financial crimes, producing the widest space at the top level. This shape clearly shows that it is not impossible for non-white collar criminals to commit similar crimes as well. Since this suggests a smoother and incremental transition between different but attached social strata, this explanation is the reality expected by this research. Nevertheless criminology literature on white collar crime has more discriminatory explanations such as white-collar, or a specific social stratum.

This shape of increasing, dynamic volume of opportunity can be represented in a reverse triangle as in Figure 6.43 below.

Figure 6.43: Social Structure of the Opportunity Space for Financial White-Collar Crime



Opportunity Spaces are two-fold: *immediate* and *greater opportunity spaces* and both of these have the ‘categories’ of legitimate and illegitimate opportunity spaces. The first one is the primary concern of the crime motivation; however, the latter one also affects the crime motivation greatly but affects it indirectly.

6.5.2 Immediate Financial Opportunity Spaces

Among the determinants of immediate financial opportunity, we may mention the following:

- (i) Ownership of financial assets
- (ii) Pressure in financial markets
- (iii) Expectation of the markets
- (iv) Efficiency of the markets
- (v) Routine financial activities as a financial sphere
- (vi) Concentration of agents
- (vii) Ease of adding new financial products
- (viii) Complexity
- (ix) Size of the agents in the markets.

We explain these determinants further in the following Chapter and make a

comparison of the major financial systems based on these determinants, but financial crimes are not only affected by these factors. There are also secondary determinants of financial crime's macro financial environment, such as *greater opportunity spaces*.

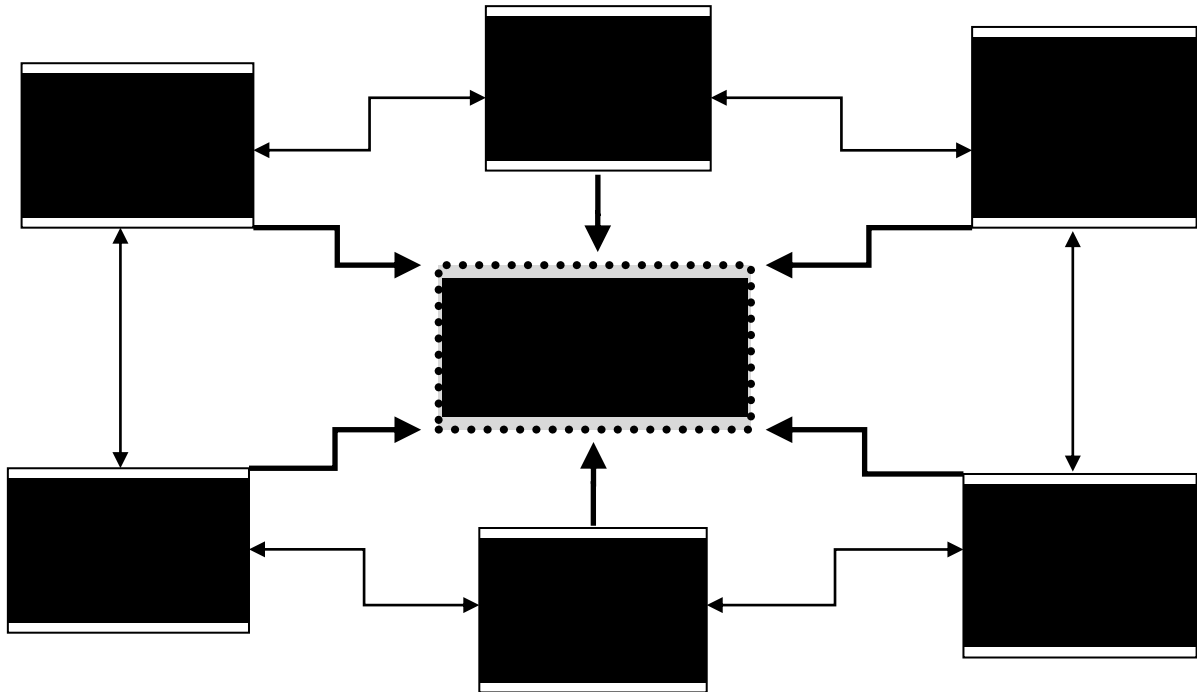
6.5.3 Greater Financial Opportunity Spaces

Apparently there are many factors that are affecting the financial criminal activities but operationalizing all of these variables would lose the concept's 'analytical bite' (McAdam, 1996). Nevertheless, we may mention some of the secondary contributing factors of financial opportunity spaces, such as economic, corporate, international, political, social and cultural and technological factors all of which can also be regarded as opportunity spaces *per se*.

Wahlström and Peterson (2006) mention three varieties of opportunity structures, but in an era of vast globalization it is wise to include 'corporate', 'international' and 'technological' opportunity spaces as well, as shown in Figure 6.44. Morrison (2002: 23, 343) also analyses similar opportunities by using 'PEST analysis'¹³⁹ for various 'environments' and similarly, mentions the following dimensions, while analysing the global and national environment of international business: Economic, cultural, social, political, legal, trade and competitive, technological, financial.

¹³⁹ An acronym for 'political-legal', 'economic', 'socio-cultural' and 'technological' environments.

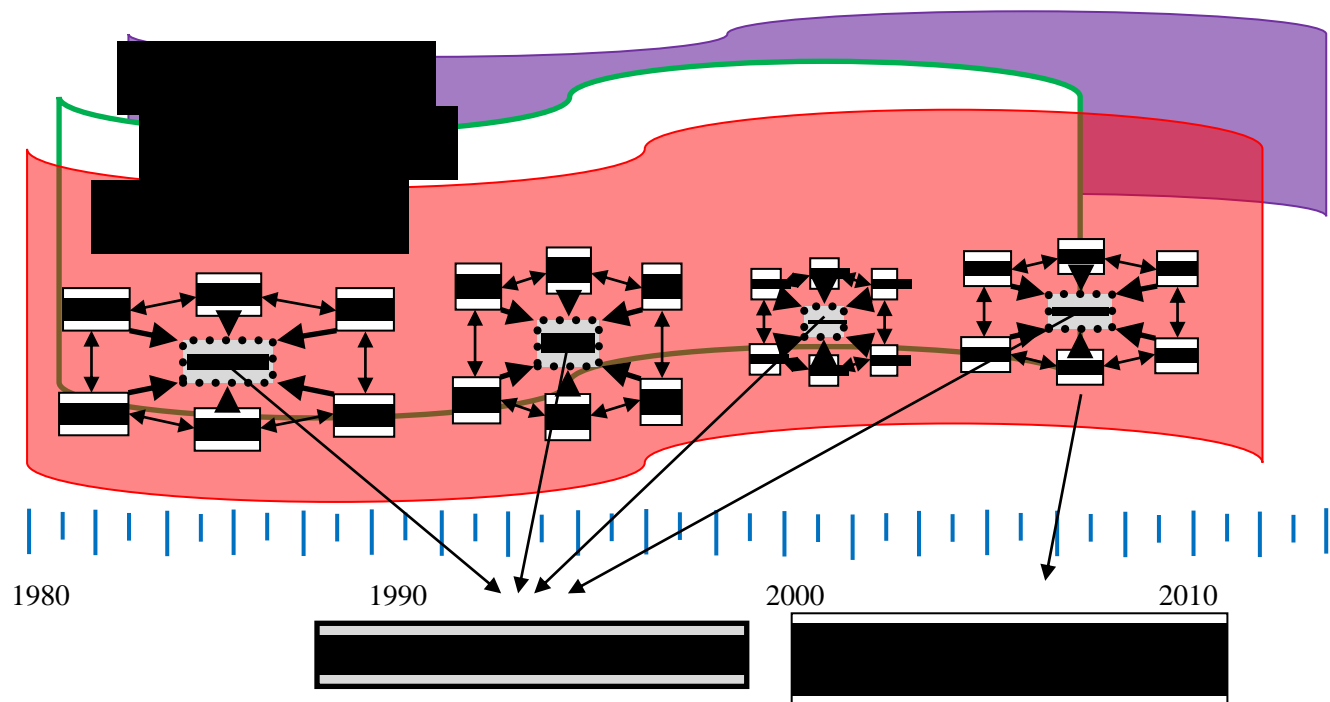
Figure 6.44: Varieties of Opportunity Structures That Form Financial Opportunity Spaces.



6.5.4 Dynamicity of Opportunity Spaces

Opportunity spaces are not static: these are dynamic systems. Wahlström and Peterson (2006: 364) agree that the “structures are specific to different locations and can vary from time to time”. This is very intuitive because it is well known that the immediate opportunity spaces contract in times of crises. In times of war on the other hand, the same dynamic change happen on the greater opportunity spaces. Thus, opportunity spaces expand and contract in the course of time and space, as shown in Figure 6.45.

Figure 6.45: Dynamic Nature of ‘Financial Opportunity Space’ in Different Immediate and Greater Opportunity Spaces



Cohen and Felson (1979), while discussing routine activities theory (RAT), argue that the time differences, as shown in Figure 6.45, are also a reason for different levels of crime propensity. For instance, they say, after the World War II, more people are placed in particular places at particular times¹⁴⁰.

Figure 6.45 depicts all of the opportunity spaces of financial crime as immediate and greater spaces in the various environments of market, transitional, Islamic financial systems. Financial systems change shapes and colour because of their performance and their characteristics respectively as the time passes just like the financial opportunity spaces affected by both the financial and political, technological and various other effects.

After appreciating the mutual consent of the criminologists and opportunity space theoreticians, we may then argue that the opportunity space of financial criminals

¹⁴⁰ Indeed there is a whole theory of the Chicago school analyzing the consequences of this new form of life in modern cities regarding crime. These studies eventually led to geographical information systems (GIS) and an authentic field of study under criminology and criminal justice.

comprises the dimensions of *time-span* and *environment* which have afore=mentioned varieties (economic, social, corporate, political, technological, international) that have an *external effect* on behaviours of the financial agents and finance world.

After defining and expanding the concept of *opportunity spaces*, we may now narrow our perspective down solely to the *dynamicity* and *adaptation* of the targets to the environment and try to lay down some important elements of the interaction between the *environment* and the individual's dynamic motivation process.

6.5.5 Dynamicity¹⁴¹ and Adaptation of the Target Setting Behaviour and Environment

The target is the primary motivation of the offender, because it provides an 'expected utility' for him/her. The expected utility, that is the 'value' of the target, helps to satisfy part or all of the *need gap* of the offender. Depending on the position of the offender on the needs hierarchy, social structure, and utility dimensions, offenders choose different targets to satisfy their *need gaps*. For instance, a white collar criminal may evade tax to enrich his/her ideal self while some other in a higher socio-economic position may manipulate markets in order to enjoy the appreciation of the *Financial Times*, *Wall Street Journal*, his/her friends *etc.*

Enjoyment of the utility gained by the crime decreases the *need gap* of the offender but in a short while, because of the recidivism, renewed ideal and real selves, increasing/decreasing volumes of SD in wealth distributions, confidence effects *etc.*, consequent crimes may or may not occur until after the complete fulfilment of the *need gaps* or the realisation of the feared selves.

Since the ideal self and the real self are constantly reproduced by the achievement of the *legitimate*, *illegitimate* and *a-legitimate*¹⁴² targets, further targets are set and renewed all the time. Thus, in a mid-term, after the enjoyment of a series of utilities and fulfilment of the *need gap*, offenders do not abandon their deviance. In fact, research shows that they commit crimes at higher frequencies, so long as they are not

¹⁴¹ Philips and Votey (1987) agrees that the rational crime choice of offenders is dynamic.

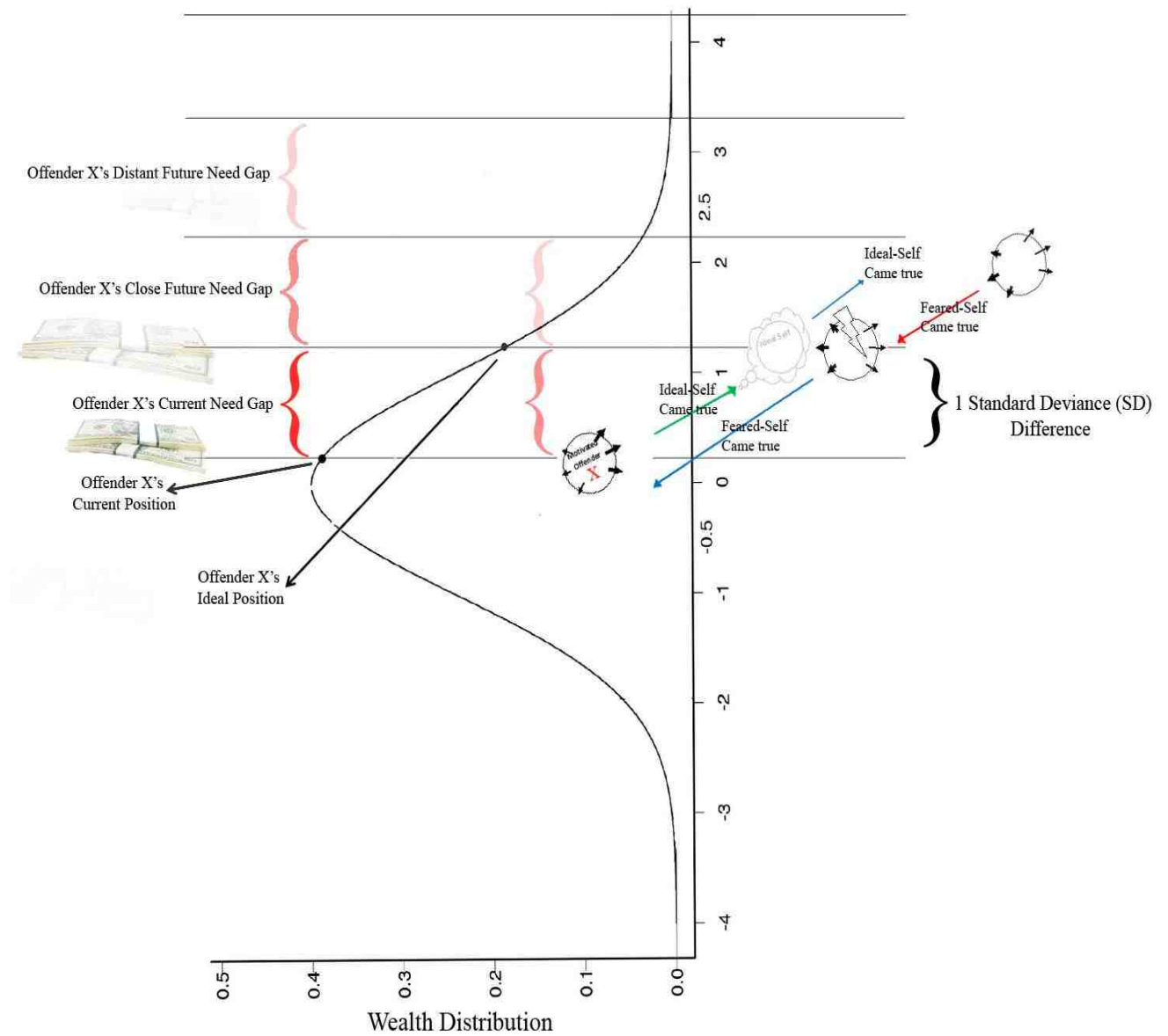
¹⁴² A-legitimate targets are usual, periodic, expected earning in our everyday life. We get used to them and do not consider them as 'targets' but they usually keep us in the position we are occupying, A-legitimate targets may decrease our *need gaps* as well if we save some of it and reinvest (e.g. in education and training) and eventually increase our *real actual selves*. If we fail to actualize our a-legitimate targets or lavishly spend it we may fall onto our feared self.

caught, because they increase their *ideal self* and/or *actual self* with their position in the hierarchy of needs and the social structure of the society. They find a safe way of deceiving the formal guardians and enjoy the fulfilment of the attained higher selves. These motives encourage individuals to continue committing crime at even higher frequencies.

For a better comprehension of the theory targets other than illegal ones should be explained as well. As explained earlier, a-legitimate targets are usually our regular income such as salaries and rent. *Legitimate* targets, on the other hand, are usually bonuses, financial reinvestment, trade etc. A-legitimate targets are what keep us in the financial position we are in now. When we fail to actualise a-legitimate targets, because of illnesses or bankruptcy for instance, our first feared self is likely to be realised in a short time depending on the savings the individual makes or the safety nets in the society.

Apparently, some of the offenders do not get the utilities in some instances and may lower their *need gaps* and accept lower positions in the hierarchy of needs when they repeat doing this or change their utility dimension slightly or completely. Many of these concepts can be justified by the arguments of psychology on various defence mechanisms, but further research is necessary for a reliable argument. Nevertheless, utility dimensions other than the material utility are not our concern here, unless they touch the criminality argument. Only the linkages are touched upon in this research.

Figure 6.46: Dynamicity and Adaptation of the Target-Setting Behaviour



As seen in Figure 6.46, people set targets according to their position in the society, to society's socio-economic structure and to their social, financial and moral environments. Depending on their legal earnings, their individual preferences and *legal* and *a-legal targets* emerge. However, whether they set *illegal targets* is not determined only by environmental factors, despite their considerable effects on deviance.

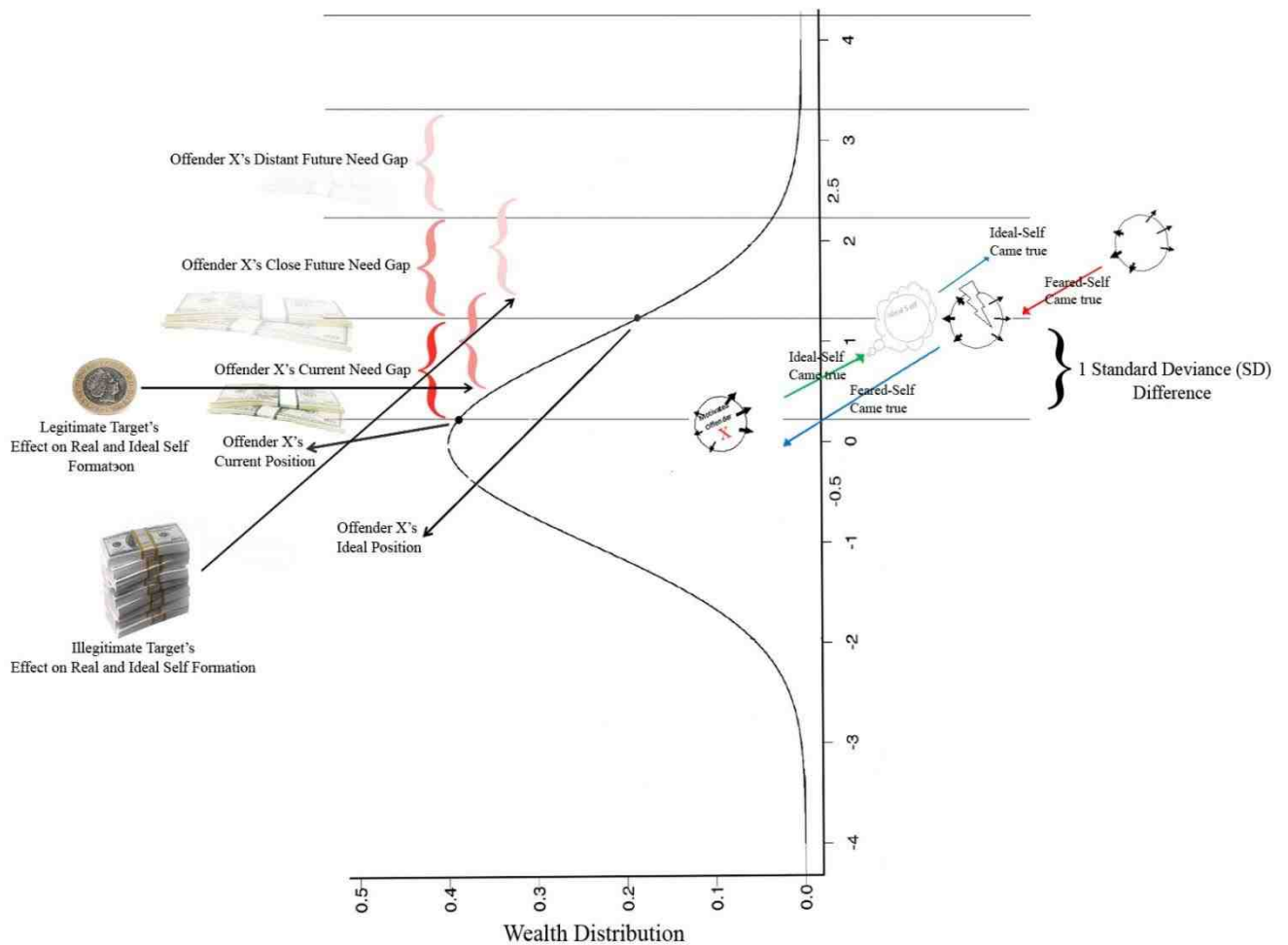
Inner mechanisms of the offender determine the *planned, pre-crime, illegal targets* (see Appendix A). These mechanisms are explained earlier in this chapter. The immediate decisions about crime, on the other hand, emerge from the characteristics of targets and opportunity spaces in general. Environmental factors on the other hand increase the likelihood of the deviance and affect all the parameters of the dynamic process of being a criminal.

Nevertheless, individuals with no deviance may also attack illegal targets if they perceive them to be considerably vulnerable and significantly valuable compared to their current material position in the society and to their dominant utility dimensions. Figure 6.47 shows this phenomenon.

According to Figure 6.47, the individual resides at the peak of the wealth distribution of the society where usually the middle-class people reside. However, the individual would like to be in a higher socio-economic stratum in the society which is depicted as a point that is further right¹⁴³ to the peak of the distribution where the individual currently resides. The individual has two options, he/she either chooses to fill the need gap to reach the higher stratum of the society by means of legal targets (in the figure depicted as a coin) or finds an illegal target which is far more valuable compared to the legal target and capable of filling the need gap faster, realising the first ideal self of the individual before the others. In the case of Figure 6.47 the distribution is normal. This means that the individual would have the same level of difficulty in the upper stratum of the society in order to realise his/her second ideal self which resides another (second) standard wealth deviation (depicted as lines perpendicular to the base of the figure) away from the current position at peak.

¹⁴³ 'up' for the portrait viewers.

Figure 6.47: Intimidating Effect of The Target Value in The Dynamic Process of Becoming a FWCC



Among other parameters of our grounded theory, Figure 6.47 shows the intimidating effect of the target value, *ceteris paribus*, in a society with normally distributed earnings and wealth.

In the process of becoming a financial white-collar criminal this research theorises, every material gain decreases the *need gap* but, for instance, if the individual is promoted to a higher position in the society, which pushes the individual to set higher ideal selves, his/her motivation and potential deviance do not decrease. Rather, he/she sets new, higher *selves* and as a result, has bigger *need gaps*.

In a similar vein, if individuals are constantly pulled into unrealistic ideal selves through media and advertisements or by unreasonable success examples, they never stop setting new and higher *ideal selves* and do not enjoy owned possessions which are safe from the point of view of crime but enter into a race to fill their swollen *need*

gap.

Similarly, if some lose hope and fall into despair, for instance by failing to achieve their a-legitimate targets, they also hate themselves and, seeing their failure through the media and the society who do not appreciate them but call them losers, they find out new failures in their failure and do not stop and enjoy their belongings and actualise their feared selves in a repeating spiral.

6.6. CONCLUSION

In this first analytical Chapter, we answered the first research question of our study, that is, ‘why do people commit financial white-collar crime?’. We developed a completely new, rational choice perspective which is inductive, positivist, dynamic, relativistic and original. In many ways, this research developed the RCT into a more consistent, more comprehensive and more complex theory.

As implicitly explained in this Chapter, along with the current version of the RCT, this research developed the motivation theory of Rollinson *et al.* (1998), the needs theory of Maslow (1954), the structural model of self of Freud (1961) and the theory of social stratification of Marx (1969)¹⁴⁴. Further research on these specific theories would be useful to confirm both the improvement of those theories and this very theory, produced as a result of this research.

In short, this research explained financial crime deviance in a longitudinal process but not all the details of the theory are explained in this Chapter. One of the main reasons was the requirement of parsimony in grounded theory research. Nevertheless, interested readers may find more details in Appendix A.

As the attempt so far shows in this study, we integrated the effects or targets and their qualities into the same process with the socio-economic structures of certain societies. The theory explained both the inner mechanisms of the deviation process and the macro effects of the socio-economic environment on the process of becoming deviant.

¹⁴⁴ In the literature of social classes, Weberian Stratification is also a famous and important one; however this way of classification is designed at an upper level of conceptualization and our codes, developed as a result of the grounded theory, only give details of one of the three classifications of Weber, ‘class power’(Waters, 2010).

New concepts and ideas such as *immediate and greater opportunity spaces* and normal and non-normal distributions are presented and applied.

Our dynamic approach with macro explanations that are founded on a micro base produced a theory that is applicable to many extreme socio-economic conditions. This increased the validity of the theory via comparative cases.

Indeed, only the analysis of social and economic stratification by the characteristics of the wealth distributions and showing the societal relativity between different systems is enough to present the authenticity of the theory explained in this Chapter.

We presented the multi-dimensional utility function which is more convenient to reflect the offender calculations in all of the extreme cases we compare and indeed may encourage many researchers in various contexts of criminology other than white-collar crime to conduct further research on this subject as well. Indeed, this multi-dimensionality of the calculations may help us understand the so-called 'irrational' behaviours in the society.

Finally, the theory produced as a result of the grounded theory methodology satisfies all the requirements of a sound, reliable, scientific theory. Its positivist results, though complex, are measurable and this guarantees the testability and hence falsifiability of the resultant theory.

Now we can turn our attention to the initial research question of this study in the following Chapter. As explained before, this research began with the following question: '*which financial systems are the most/least vulnerable ones against financial white-collar crimes, if they are distinguishable in the first place?*'. Chapter 7 provides the results of our comparative analysis based on the criteria and framework presented in this Chapter, mainly 'opportunity spaces'. A complete comparison was not possible because of page and time limitations.

Chapter 7 focuses on the main components of a criminal behaviour, its environment, and then carries on to discuss certain components of the environment one by one. In this sense, our approach does not present a *distant perspective* compared to the current varieties of environmental criminology and specifically modern RCT, probably because we aim to improve it.

Chapter 7

FINANCIAL SYSTEMS AND FINANCIAL CRIMES: A COMPARATIVE ANALYSIS THROUGH GROUNDED THEORY FRAMEWORK

7.1. INTRODUCTION

According to Cohen and Felson (1979: 595) “the risk of criminal victimisation varies dramatically among the circumstances and locations in which people place themselves and their property”. This study, hence, aims to investigate whether all financial systems are equally vulnerable to financial crimes, by discussing the differences of positive and negative forces between the business environments of various financial systems, along with the greater environment of politics and economy, to learn “which financial systems are the most/least vulnerable ones to financial white-collar crimes?” if there is a difference between them. As explained earlier, we postponed answering this question until this chapter, because the best available theory to be used in the literature, Rational Choice Theory (RCT), was not feasible for comparing the extreme cases this study deploys. RCT does not provide proper or efficient explanations for motivation¹⁴⁵ and the opportunity frame it renders is not enough to explain financial crime¹⁴⁶.

With the help of the rational choice based grounded criminology theory¹⁴⁷ developed on financial white-collar criminality (FWCC) in Chapter 6 and the data accumulated therefrom, this chapter is ready to put the financial systems into the order of crime vulnerability according to the criteria recommended by the literature. Thus in this chapter a comparative analysis is presented not solely based on the observation of the cases and the relevant knowledge and information accumulated about and of the

¹⁴⁵ Please see Chapter 3 for a detailed discussion.

¹⁴⁶ Please see Chapter 2 for a detailed discussion.

¹⁴⁷ Please see Chapter 6 for the details of the grounded theory of financial crimes, produced by this study.

financial systems *per se.*, rather, a comparison from a new theoretical perspective¹⁴⁸.

7.2. COMPARATIVE (FINANCIAL CRIME) OPPORTUNITY SPACES IN VARIOUS ECONOMIC AND FINANCIAL SYSTEMS

A short introduction to the financial systems could be expected to precede the comparative analysis in this Chapter and this was the initial intention; however due to the space limitations we put this comparative introduction in Appendix C. Nevertheless, readers who wish to have a better flow of the concepts and the subject can first read Appendix C, a comparative introduction to the economic and financial systems, and return to this Chapter to continue following the rest of the analyses.

The main aim of this chapter is to answer the second research question of the study: putting the financial systems into the order of FWCC vulnerability. This is not possible until we lay down certain criteria for the comparison. Gregory and Stuart (1985: 12) supply such criteria, namely, decision-making structures, coordination methods, property rights, incentive and motivation mechanisms. These factors are used as comparison criteria in Appendix C; however, they are not sufficient for our study, because this study is not simply about comparing financial systems but comparing them through a certain outlook, that of financial crimes. Thus, it is better for us to additionally utilize criminological factors to tailor the comparison specifically for this outlook. Punch (1996) provides such structural factors for the studies of white-collar criminality under the following titles:

- (i) *Markets*, because “there would appear to be some circumstances in which competitive pressures lead to misconduct”;
- (ii) *Size/Complexity*, because “oversize and control are difficult”;
- (iii) *Goals*, because “pressure to achieve particular objectives may increase the likelihood of deviance”;
- (iv) *Opportunity Structures*¹⁴⁹/*Rewards* because “it is possible that the temptation increases as the rewards increase” (Newburn, 2007: 387).

¹⁴⁸ Nevertheless, we do not mean to test our grounded theory. We left testing the theory to other independent researchers mainly due to space limitations. This is why we do not use specific concepts and variables produced by the grounded theory, but we undoubtedly profited much from the complex nature of the theory which is evident from the 23 extended criteria developed as the output of this study to represent a single concept, ‘opportunity’ in rational choice.

¹⁴⁹ These underlined concepts and terms are confirming the outcomes of this study in both theoretical and comparative analyses.

In order to accommodate two different aims simultaneously, that is both giving an introduction to economic and financial systems and fulfilling the requirements of our viewpoint, we analysed markets and goals, in Appendix C, and kept size/complexity and ‘opportunity structure/rewards’ analyses to be presented in this Chapter, according to their volume of opportunity spaces or their ‘conceptual environment’.

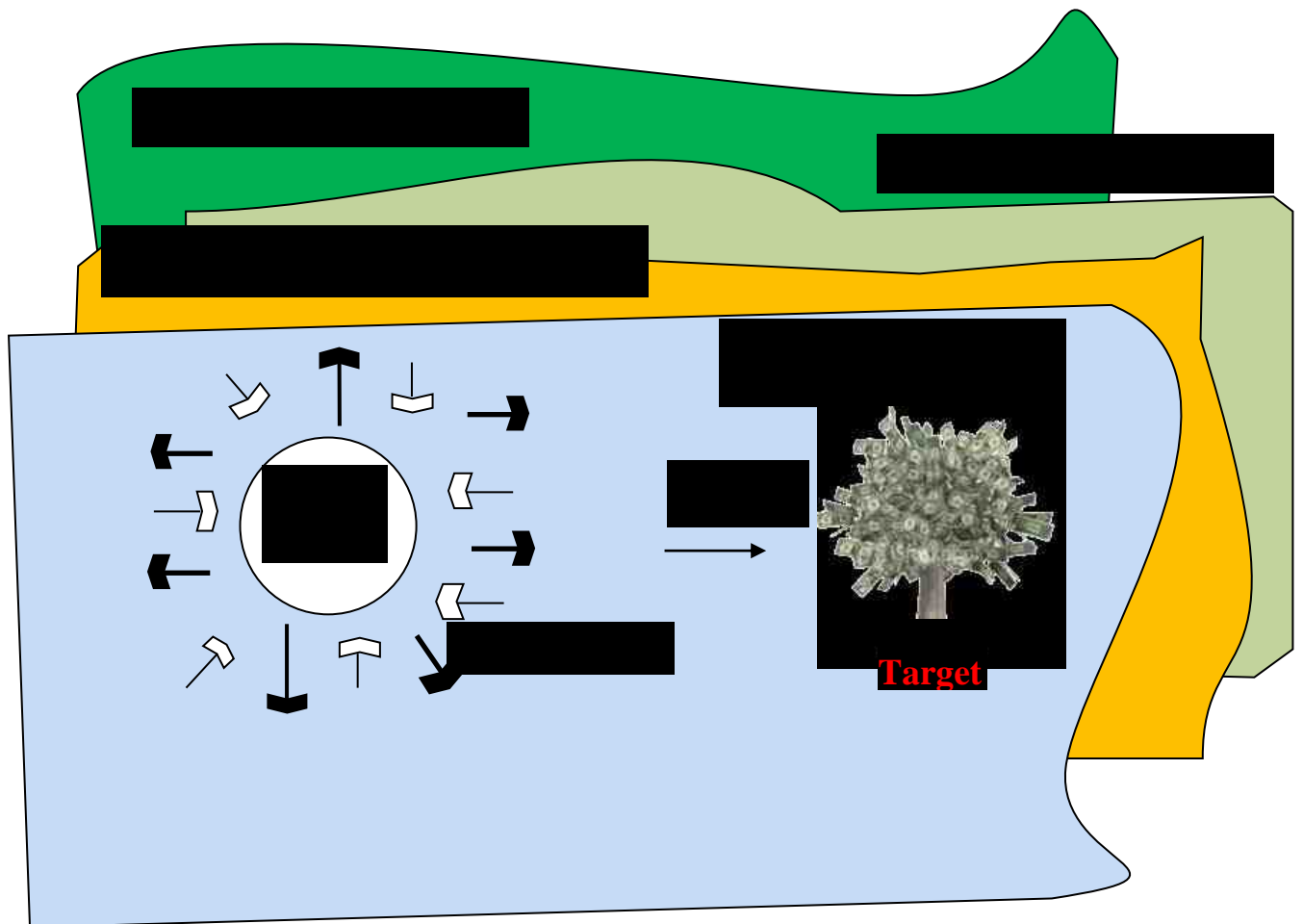
Although opportunity space is a generic term, one may claim the possibility of different levels of opportunity spaces. Evidently, the financial opportunity space of the CEO of the Finance Department of Ford Motors is not equal to the opportunity space of an investment manager in a local bank. A personal hedge fund manager such as George Soros is not comparable to an employee investing his money in the stock market.

Siegel (2009: 75) argues that “motivated criminals must have the opportunity to find suitable undefended targets before they commit crime”. For example, Miethe and Meier (1994) argue that life-style affects the opportunity for crime, as his/her life-style determines his/her proximity and time of exposure to crime. As a victim as well the individual’s attractiveness as a target and ability to be protected varies according to their life-style.

In today’s financial systems, the opportunity spaces are enormous, as both the trade and economic output of the world fall behind global financial flows (Held *et al.*, 1999:203). For instance, the overall size of the GDPs of all the countries in a certain year in recent decades are far behind the overall size of the derivatives market alone, which is only a sublevel market in greater financial markets.

Financial systems’ opportunity spaces vary because their business operations and natures, cultures, law, habits, educations, ideas, beliefs, routine activities *etc.* differ greatly. We may picture them in different settings as shown in Figure 7.1.

Figure 7.1: Greater Financial Opportunity Spaces¹⁵⁰



Let us now build our conceptual framework from the very bottom, up, by including one additional concept following another along with their visual aids, in order to decrease the effort of making conceptual connections.

7.2.1. Greater Spaces

7.2.1.1. Greater Opportunity Spaces for Financial Crime

We may mention the greater financial opportunity, which is made up of secondarily important factors of finance along with the immediate financial opportunities with primary relevance to crime propensity.

¹⁵⁰ Despite the fact that the length of the opportunity spaces in Figure 7.1 (representing the time span between 1980 and 2013) were the same in Chapter 6, in this Chapter the sizes differ because of the differences in both the pace of the markets and of time perceptions.

7.2.1.1.1. *Politics as a greater financial opportunity space*

Politics affects almost all of the functions of a society in many ways, especially economics. Authors like Galbraith (1978), Frey (1983: 9) and many others argue that the phrase ‘political economy’ makes better sense than ‘economy’ alone.

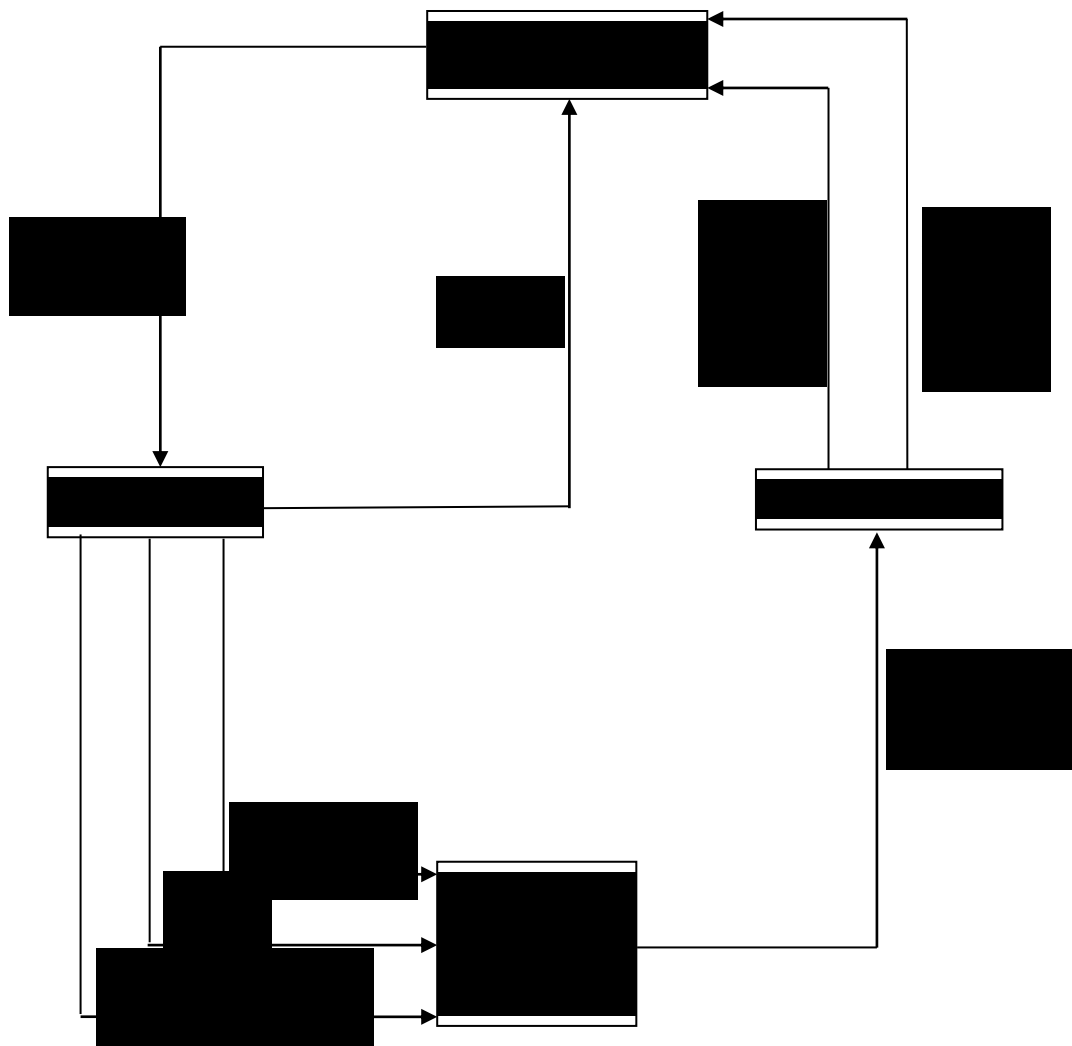
According to the World Economic Forum (2002: 5) there is a great mistrust of “all institutions, including democratic institutions across the globe”. But our concern here is more about the level of openness of the political economic systems. Morrison (2002: 23) agrees that this should be the concern for international business studies; one should be aware whether or not governments are “stable”, and the “constraints” they impose on the market.

Mc Adam (1996) suggests that the openness or the closedness of the political systems should be referred to while discussing opportunity spaces, especially “people’s actual access to the political system” (Wahlström and Peterson, 2006:365). And Dasgupta (2007: 140) agrees that the diversification from *authoritarian* to *democratic* states presents a range of opportunity spaces from restricted to expanded opportunities respectively. Additionally, in politically superior countries, financial agents enjoy bigger opportunity spaces because they are preferred as political (and thus financial) ‘centres’ and not peripheries. Opportunities are always better in the centres of cities, countries and societies and weak in the peripheries.

Dasgupta (2007: 143) also argues that “enjoyment of civil liberties, the ability to participate in the political sphere, and access to commodities (food, clothing, shelter, health care, education – more generally, wealth) are necessary if people are to flourish.” and this flourishing eventually expands opportunity spaces for every member of the society along with financial opportunities and financial ‘illegal’ opportunities.

Frey (1983: 11) defines the political economy as depicted in Figure 7.2, which shows the interaction between economy and polity resulting in endogenised institutions in creating a system, which is overlooked by some economists (*i.e.* Marshall, 1961).

Figure 7.2: Interactions between Economy and Polity



Source: Frey (1983: 11)

In this sense, the market system and its common political environment is the most open system and allows its participants to freely and diversely interact with each other in the market, and thus is the most vulnerable to financial crimes in this framework. “The shift towards more open markets and away from state ownership and control ... has brought greater opportunities for the expansion of business enterprises” (Morrison, 2002: 85) in market systems. In the countries with such a system, the political arena is more open to the public and these countries are usually parliamentary democracies.

Consequently, we may argue that the East of the world map seems to be comprising of more social, authority-driven, formal, closely-knit populations while the West of it

has more individualistic, dispersed, informal, loosely-knit populations. Not surprisingly, with marginal exceptions, many of the socialist economies are in the East and their decision making is centralized and authoritative. Gray (1993: 36) agrees that, unlike Anglo-American and Anglo-Saxon-plus (Grey, 1993) capitalism, Continental Europe and Asia have more regulated systems.

On the other hand, the political systems of socialist countries are usually closed systems. China and Cuba especially are among the most closed systems in the World. One may consider China in another sphere other than socialism but considering the replacement of China's political order with a democratic regime could not fit China's circumstances (Zhao, 2005: 425). In terms of property rights, for instance, it was the first time that the CCP made an amendment to the constitution allowing citizens to have private property (Xinhua Newsagency, 2004).

Under Xiaoping's leadership, China has implemented market-oriented economic reforms and it is harder for the CCP to defend working class rights now, in the market-oriented economy. Rosenthal (2002) argues that the CCP could find a solution for this tricky situation by announcing that the CCP is the defender not only of the working class but also of the private entrepreneurs.

The socialist political environment is very much restricted and diversity of ideas is discouraged, even prosecuted. On the other hand, the Islamic political environment is not a very open political system either. In many of the Islamic countries states have an ideology and ideas and practices against these ideologies are not forgiven. Unlike Western democracies, these countries are not pragmatic, rational 'democracies' but 'republics' with many assumptions and *idees fixe*. Some of them even support interesting mixtures such as 'militant democracy'¹⁵¹. Similarly, many of the socialist and Islamic political environments, especially in the last three decades, are either militarist systems which came to power via military coups or extremist fundamentalists, all of which are based on authority, control and restricted access to the political sphere. There are exceptions of course.

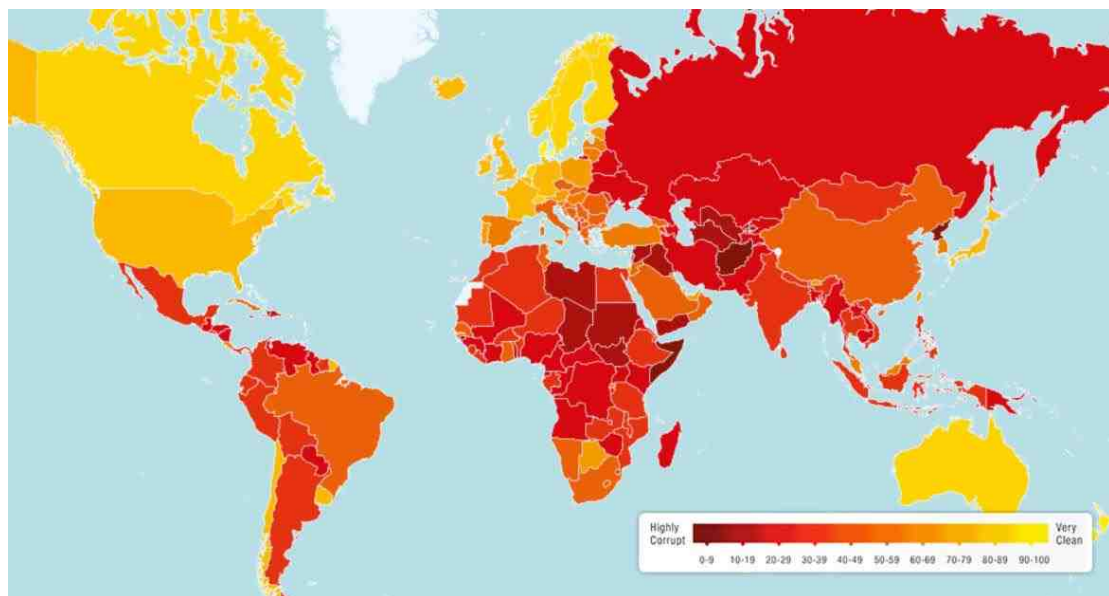
Considering the full control of communist parties in China, Russia (before 1990) and

¹⁵¹ Basically meaning that democracy as the ultimate, perfect, ideal system has to defend itself at all costs against all possible alternatives.

Cuba, we still have to put socialist political opportunity space down the bottom of the order. For example, Lewis (2009) argues that “between 2004 and 2005 nearly 300,000 party members were punished for corruption including party secretaries and nearly 500 judges. Some were executed. Thousands have fled abroad with around 30,000,000,000 pounds of the public’s money” in China.

It is easy to see these arguments in the following map of the Transparency International’s ‘Corruption Perception Index’ in Map 7.1 but Table 7.5 suggests a different result. Since all the parameters we study are dynamic in time dimension between the 1980s and 2014 it is not easy to provide a quantitative analysis of the results. This is indeed a good opportunity to prove that it is essential to give a qualitative judgement about ‘white collar’ strata of a given system in our analyses.

Map 7.1: 2013 Corruption Perception Index



Source: www.transparency.org

As the Map 7.1 suggests there are no significant differences between the socialist and fully and partially Islamised economies in terms of their political corruption but Table 7.1 suggests that there is a considerable difference between the socialist and partially Islamised systems.

Table 7.1: 1995 Corruption Perception Index

Ireland	8.57	4	0.61
United Kingdom	8.57	4	0.17
USA	7.79	4	1.67
Hong Kong	7.12	7	0.48
Malaysia	5.28	7	0.36
Italy	2.99	4	6.92
China	2.16	4	0.08

Source: www.transparency.org

Apart from Iran, Islamic political systems can be considered quasi-open (or quasi-closed) systems. This is why putting Saudi Arabia and Malaysia into the same picture is not fair because their political environment is different and more open. This is why we may put the financial systems into the order of political opportunities as shown in Table 7.2.

Table 7.2: Comparison of Political Environments of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.1.1.2. Technology as a greater opportunity space

In today's finance world, a few clicks are enough to EFT great sums of money from one country to another. Without uniform or at least very similar financial techniques and institutions this would not be possible. Technical regulations in our study thus can be considered to be standard despite the extremely distant world-views of the financial systems.

Technology affects financial crimes a great deal. 97% of the currency is electronic only and never printed on paper. Technology supplies a ground for financial crimes that differs from place to place. Even as early as the 1920s, many bogus stocks were

sold, after the common¹⁵² use of telephones, in ‘boiler rooms’¹⁵³ (Shiller, 2010).

Technological space is dynamic across different financial systems in the course of time. For example, 1980s expertise about stock markets and accounting practices left its place to a good amount of computing, networking, security technologies and software knowledge around 2010. Reaching a good quality of *education* and technology requires considerable initial wealth which can be used as a ladder to reach more of the fruits.

Morrison (2002: 23) discusses the “level of technological education and training”, encouragement of technological innovation, funding and computer literacy while explaining the technological environment of PEST analysis.

In 2000, The New York Stock Exchange was handling “40 per cent of its volume through SuperDOT, its computerized trading system” (New York Stock Exchange, 2000). Now this ratio is so high that Wall Street only holds some servers of the financial institutions and the trading floors are closing down. Especially in the last decade, even traditional trading floors have become extinct because the whole finance runs on digital gadgetry; electronic systems such as Swapswire¹⁵⁴, SecFinex, Equilend and electronic marketplaces like NASDAQ, NYSE Arca and Globex are examples (Morrison, 2002: 325).

Some of these practices make financial crimes easier for the ones who can reach cutting edge technology. For instance, “the stock market crash of October 1987 raised anew the question whether certain trading practices, such as program trading¹⁵⁵, manipulated the market by causing a severe decline in securities prices” (Goldmann, 2010). A similar crash of May 6th 2010, the ‘Flash Crash’, occurred in approximately 15 hours when “Dow Jones [took] the fastest and most dramatic nose dive in its history” (NPRO, 20 March 2013).

Similarly, the financial markets are not the market as we know it either. What we call

¹⁵² Common’ meaning, a few hundred calls a year.

¹⁵³ These operations were called boiler rooms because many phones in the cheapest places such as basements with boilers were being used for selling, often bogus stocks.

¹⁵⁴ to deal interest-rate swaps.

¹⁵⁵ See Jonathan R. Macey, Mark Mitchell & Jeffrey Netter, *Restrictions on Short Sales: An Analysis of the Uptick Rule and Its Role in View of the October 1987 Stock Market Crash*, 74 Cornell. Rev. 799 (1989).

‘financial markets’ are computers, networks and software now. “There are no people at all any more, there are just black boxes” (NPRO, 2013) which are dealing with milliseconds. “When you are dealing with milliseconds, there can be absolutely no delay ... Speed of light between one point and another ... becomes your outside ring... that you can go [the distance between a bank and its data centre] tends to be in that neighbourhood of 30 to 35 fiber miles” (NPRO, 2013).

If modern banks build their data centres more than 35 fiber miles away from the markets (*e.g.* Manhattan) or use slower machines, CPUs, *etc.* they are doomed because then they would operate behind the actual markets where one second is enough to crash the whole market (NPRO, 2013). Everybody is required to use 1000 cable which takes the speed of light one microsecond to go down the cable. If somebody had 5 ft. off their cable, they get $1/2/1000$ 0000th of a second faster which can be enough to be ahead of the market and misuse this time advantage in high frequency trading (NPRO, 2013).

The market system has technologically advanced over the last thirty years compared to socialism and Islamic systems (as seen in Table 7.3¹⁵⁶, 7.4 and 7.5), and the representatives of socialism, especially around the 1980s, were also technologically advanced enough to be in front of the representatives of the Islamic financial system, because of Russia as superpower, Cuba as ‘Soviet pawn’ according to her enemies (Latell, 2005: 194) and China, who has been taking over the role of the Soviets in the socialist world, since the last decade.

¹⁵⁶ Year 2000 is in the middle of our time frame but the recent picture is not significantly different apart from China.

Table 7.3: Global Competitiveness Index for 2014

Country/Economy	Rank (out of 148)	Score (1-7)
United States	5	5.48
Hong Kong SAR	7	5.47
United Kingdom	10	5.37
Saudi Arabia	20	5.10
Malaysia	24	5.03
Ireland	28	4.92
China	29	4.84
Italy	49	4.41
Russian Federation	64	4.25

Source: World Economic Forum

The World Economic Forum's World Competitiveness Index dates back to 2008 but Morrison (2002) gives Table 6.8 below for the year 2000. In this ranking of the first 15 countries, there are no socialist or Islamic countries.

Table 7.4: Top Competitiveness Rankings for 2000

Global Competitiveness Index (WEF)		World Competitiveness Scoreboard (IMD)	
1	Finland	1	US
2	US	2	Singapore
3	Germany	3	Finland
4	The Netherlands	4	The Netherlands
5	Switzerland	5	Switzerland
6	Denmark	6	Luxembourg
7	Sweden	7	Ireland
8	UK	8	Germany
9	Singapore	9	Sweden
10	Australia	10	Iceland
11	Canada	11	Canada
12	Belgium	12	Denmark
13	Austria	13	Australia
14	Japan	14	Hong Kong
15	France	15	UK

Source: Morrison (2002)

In a similar vein, as seen in Table 7.5, in 2000, only 1.34 % of the Chinese population were on the internet, unlike market systems.

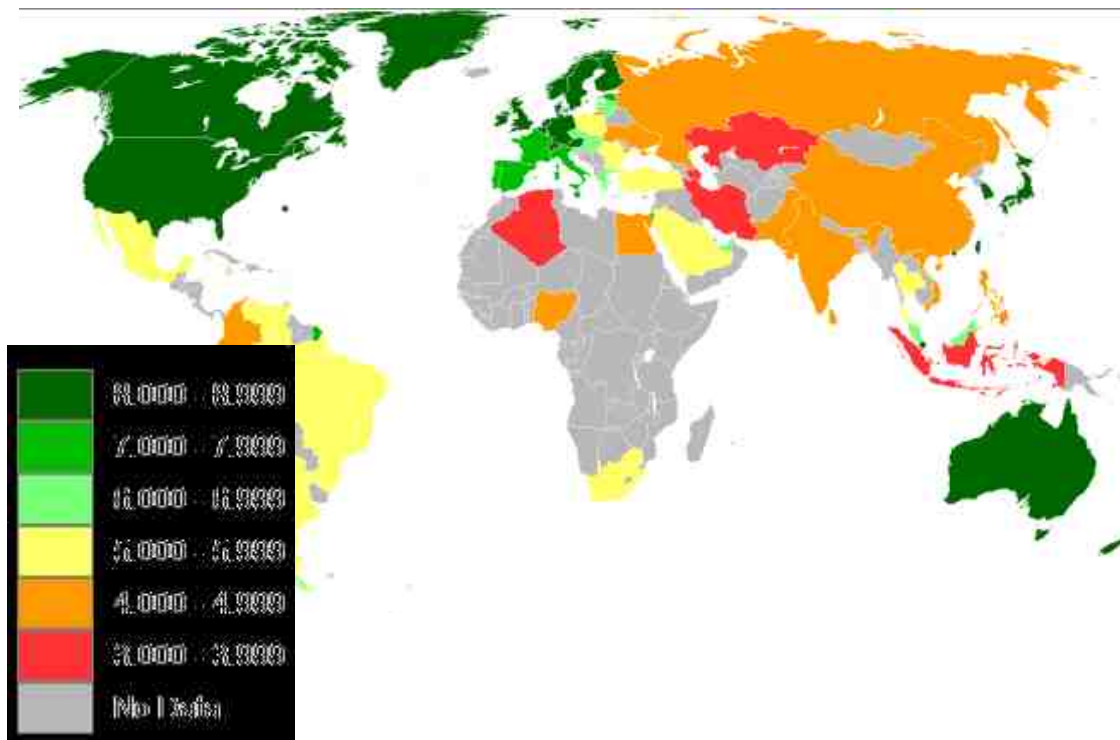
Table 7.5: Distribution of the Population on the Internet in 20 Selected Countries (2000)

Country	Number of people (millions)	Percentage of population
Australia	7.77	40.54
China	16.9	1.34
India	4.5	0.45
Japan	27.06	21.38
South Korea	15.3	32.31
Czech Republic	0.35	3.4
Denmark	2.3	43.1
Finland	2.27	43.93
France	9	15.26
Germany	18	21.74
Iceland	0.14	52.11
The Netherlands	6.8	42.79
Norway	2.2	49.57
Poland	2.8	7.25
Russia	9.2	6.3
Spain	4.6	11.5
Sweden	4.5	50.72
UK	19.47	32.72
US	148.03	53.72
Canada	13.28	42.8

Source: Nua Internet Survey (2000) at <http://www.nua.ie/surveys>.

In addition to the corruption, indeed, one can use e-readiness ranking to show the level of technology use in the country cases we study. Map 7.2 and Table 7.6 below show 2008 and 2000 global rankings, respectively.

Map 7.2: 2008 E-Readiness Rankings



Source: Economist Intelligence Unit (2009)

Table 7.6: E-Readiness Rankings of Top Countries in 2009

Rank 2009	in	Country	Overall Score	Business Environment Readiness
5		United States	8.60	7.65
8		Hong Kong	8.33	8.20
13		United Kingdom	8.14	7.03
26		Italy	7.09	6.24
38		Malaysia	5.87	6.81
51		Saudi Arabia	4.88	6.16
56		China	4.33	6.32
59		Russia	3.98	5.67
68		Iran	3.43	4.22

Source: EIU (The Economist Intelligence Unit), 25.06.2009

As can be seen, Malaysia, Saudi Arabia and other partially-Islamized countries are technologically better than Sudan and Iran. Therefore, we put the financial systems into the order of technological opportunity as shown in Table 7.7.

Table 7.7: Comparison of Technological Environments of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.1.1.3. Society and culture as a greater opportunity space

One may doubt that a detailed discussion of opportunity space in the context of financial crimes is necessary; however, financial systems run under different *socio-political* cultures, which have different effects on crime rates.

We can exemplify social interactions in the society for *social* opportunity space. The mutual relations between finance, economics and society are well established and conceptualised as *Sozialökonomik* by Weber ([1904] 1949, 64–65).

In relation to this, routine activities theorists frequently refer to everyday habits of ordinary people and they argue that these innocent, normal activities are so frequent that they affect crime rates by either peacefully and unconsciously guarding against crime or generously allowing it. Their emphasis on the ordinary life styles of regular people forces us to analyse the social structure and everyday financial habits of regular people in various financial systems.

Social and political opportunity spaces are very important and are long-term determinants of financial crime vulnerability. For instance, Levitt and Dubner (2006)¹⁵⁷ make a convincing case by using the effects of a 1973 US Supreme Court decision on abortion (*Roe vs. Wade*) and claim that the drop of crime statistics in the 1990s is because of this decision, some twenty years earlier.

Another convincing case is suggested by Dasgupta (2007: 140-143) in comparing

¹⁵⁷ Roe (Norma McCorvery from Dallas, Texas) was a “poor, uneducated, unskilled, alcoholic, drug-using twenty-one-years-old woman who had already given up two children for adoption and ... in 1970 found herself pregnant again” (Levitt and Dubner, 2006: 3) and this case prevented many children being born into adverse family environments who would eventually end up being criminals in the 1990s and thus helped reduce crime rates in all possible types of crime.

authoritarian governments with ‘firm governance’ and democratic governments with “transparency, political pluralism, a free press, freedom of association” for political contexts as well. Dasgupta (2007) concludes that economic and financial performance and size is greatly affected by the type of government.

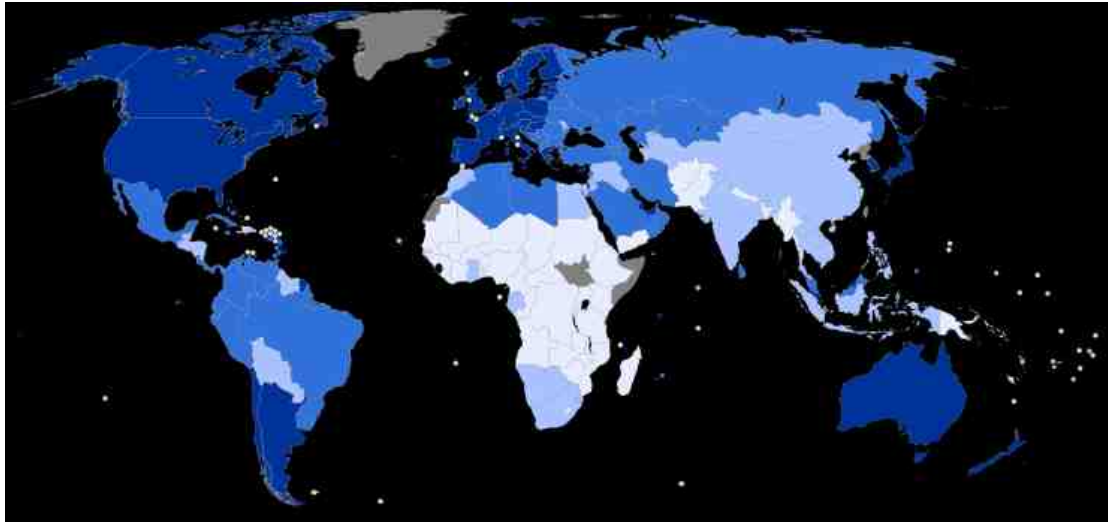
Under *cultural* opportunity space, we may cite perceived expectations, abilities, qualities and beliefs of individuals in the society, language, traditions, education, life style and the like as the determinants of culture. Financial crimes require a great deal of intellectual capacity, as the greater the level of intellectual ability or the perception of intellectual ability, the more probable the criminals would be capable of seeing financial crimes as feasible.

Morrison (2002: 23) recommends the comparison of the following concepts for the analysis of the sociocultural environments of businesses: cultural diversity, “educational levels of the population”, women’s involvement in the markets and family life (whether “single parent families, or ... extended families are the norm”).

It should be noted that financial crimes require a well-educated human profile. According to the Human Development Index, in 2002, China’s rank in this index was 35 ranks lower than Malaysia’s (China = 0.745, Malaysia = 0.793); and Malaysia was 47 ranks lower than UK and 51 ranks lower than US (UK = 0.939, US = 0.936); Italy was close to US and UK with 0.920; and Hong Kong was 0.903, Cuba was 0.809, Russian Federation was 0.795, Saudi Arabia was 0.768, Iran was 0.732, Sudan was 0.505 (Todaro and Smith, 2006: 62; Thirlwall, 2006).

The same index’s world map is depicted in Map 7.3 below, which suggests a similar picture after a decade.

Map 7.3: 2013 Human Development Index



Financial crimes require a well-educated human profile and Table 7.8 and 7.9 compare public education spending levels, literacy and participation in education in the cases we compare in 2009 and 2002 respectively.

Table 7.8: Public Education Spending in Developing Countries as Percentages of Government Spending in 2009

PUBLIC EDUCATION SPENDING	
Russian Federation	12.9
Cuba	20.6
China	-
Malaysia	25.2
Iran, Islamic Rep.	19.5
Sudan	-

Source: The World Bank (2013)

Table 7.9: Participation in Education in 2002

Adult Literacy Rate (Percentages 15 and Older)		
	Male	Female
Russian Federation	100	99
Italy	99	98
Cuba	97	97
China	95	87
Malaysia	92	85
Iran, Islamic Rep.	84	70
Saudi Arabia	84	69
Sudan	71	49

Source: Thirlwall (2006: 81-84)

Indeed all of these results are compatible with our comparative results of the Hofstede (1991) indices. Hofstede's (1991) research on cultures is indeed more appropriate for our study to apply because he has a study diverse enough to allow us to compare the cultural environments of the financial systems in a concrete manner and put these systems into a fairer order. Let us now use the four main parameters of the cultural comparison of Hofstede and apply those to our study.

In this study, we mainly look for significant differences of internal and external pressures on financial businesses in various financial systems, and as for the external pressures, Schumpeter (1987: 12) says: "The subject matter of economics is essentially unique process in historic time. Nobody can hope to understand the economic phenomena of any, including the present epoch, who has not adequate command of historical facts and an adequate amount of historical sense...". In addition, cultures are the strongest of the concepts that accumulate and reflect the collective characters of the societies that have been shaped over the centuries. Analysis of culture cannot be abandoned in any of the economic analysis for this reason.

Some important measures of organizational culture that may help us compare the

financial systems are studied by Hofstede (1991) in a study with 116,000 participants (sales and service staff) from one firm operating in 40 different countries. In Hofstede's research (1991) all the participants were nationals of their countries and the findings of the study are supported by further research by Laurent (1983), Ronen and Shenkar (1985) and Grey and Thone (1990).

Hofstede (1991) claims that there are mainly four measures of organizational culture:

- (i) Masculinity;
- (ii) Power-distance;
- (iii) Uncertainty-avoidance;
- (iv) Individualism.

Among these measures, *masculinity* scores indicate whether or not the agents dominantly prefer a materialistic utility function over social and moral utilities. *Power distance*, on the other hand, is the best candidate to compare the need gaps of market, socialist and Islamic cultures. Similarly, *uncertainty-avoidance* basically measures the haste (that is the perception error between the perceived and real actual selves) in our theoretical framework; and *individualism*, having two poles of individual and social, in fact gives the rough picture of expectations (or expected probability); because people in individualistic societies do not habitually lean on others, they do not even, generally, lean on their families and close relatives but earn their livings by themselves. This fact eventually develops a self-confidence wide-spread in the society and translates into high expectations for their ideal selves, with much stress and pressure though.

All the same, we are aware that these measures are derived from a study that is conducted in business settings and like all research has some shortcomings. This is why we do not rely only on the research of Hofstede (1991) but use many supporting and criticizing arguments from many other resources to feed our theoretical framework.

Table 7.10 gives all of these indices: PDI: Power Distance, IDV: Individualism, MAS: Masculinity, UAI: Uncertainty-Avoidance, Long-Term Orientation

Table 7.10: Hofstede's Cultural Dimensions

Countries	PDI	IDV	MAS	UAI	LTO
Greece	60	35	57	112	
Portugal	63	27	31	104	
Guatemala	95	6	37	101	
Uruguay	61	36	38	100	
Belgium	65	75	54	94	
El Salvador	66	19	40	94	
Poland	68	60	64	93	
Japan	54	46	95	92	80
Peru	64	16	42	87	
Argentina	49	46	56	86	
Chile	63	23	28	86	
Costa Rica	35	15	21	86	
France	68	71	43	86	
Panama	95	11	44	86	
Spain	57	51	42	86	
South Korea	60	18	39	85	75
Turkey	66	37	45	85	
Hungary	46	55	88	82	
Mexico	81	30	69	82	
Israel	13	54	47	81	
Colombia	67	13	64	80	
Brazil	69	38	49	76	65
Venezuela	81	12	73	76	
Italy	50	76	70	75	
Czech Republic	57	58	57	74	
Austria	11	55	79	70	
Pakistan	55	14	50	70	
Taiwan	58	17	45	69	87
Egypt	80	38	52	68	
Iraq	80	38	52	68	
Kuwait	80	38	52	68	
Lebanon	80	38	52	68	
Libya	80	38	52	68	
Saudi Arabia	80	38	52	68	
U. Arab Emirates	80	38	52	68	
Ecuador	78	8	63	67	
Germany	35	67	66	65	31
Thailand	64	20	34	64	56
Finland	33	63	26	59	
Iran	58	41	43	59	
Switzerland	34	68	70	58	
Ghana	77	20	46	54	16
Nigeria	77	20	46	54	16

Sierra Leone	77	20	46	54	16
Netherlands	38	80	14	53	44
Ethiopia	64	27	41	52	25
Kenya	64	27	41	52	25
Tanzania	64	27	41	52	25
Zambia	64	27	41	52	25
Australia	36	90	61	51	31
Norway	31	69	8	50	20
New Zealand	22	79	58	49	30
South Africa	49	65	63	49	
Indonesia	78	14	46	48	
United States	40	91	62	46	29
Philippines	94	32	64	44	19
China	80	20	66	40	118
India	77	48	56	40	61
Malaysia	104	26	50	36	
Ireland	28	70	68	35	
United Kingdom	35	89	66	35	25
Hong Kong	68	25	57	29	96
Sweden	31	71	5	29	33
Denmark	18	74	16	23	
Jamaica	45	39	68	13	
Singapore	74	20	48	8	48
Max	104	91	95	104	118
Min	11	6	5	8	16
Average	57,5	48,5	50	56	67

Source: Hofstede (2012).

Note: PDI: Power Distance, IDV: Individualism, MAS:, UAI: Uncertainty-Avoidance, Long-Term Orientation

7.2.1.1.3.1. Masculinity

Masculinity scores indicate whether or not the agents dominantly prefer a materialistic utility function over social and moral utilities because:

[i]n masculine cultures performance counts above all – *money, material possessions and driving ambition epitomise what is seen to be good*. Conversely, the so called feminine cultures are characterised by a far stronger concern for the quality of life. People rather than possessions are considered important and a *high value is placed on service to others*” (Rollinson *et al.*, (1998: 369: emphasis added).

Morrison (2002: 139) also sees masculinity as a sign of inclination “towards aggressive and materialistic behaviour” like Hofstede does. Femininity, on the other hand, “denotes sensitivity, caring, and emphasis of quality of life ... negotiation and

compromise” in contrast to masculinity’s “conflict and competition” Morrison (2002: 139).

Finally, masculinity is always seen as more materially oriented, savage and deviant than femininity or the lower degrees of it. This should then be another reason for the financial crime disposition. Indeed, this masculinity and femininity divide can be depicted as various utility dimensions because Hofstede’s (1991) research confirms our theoretical arguments that are put forward in the previous Chapter. Let us now explain these utility dimensions, as materially dominated utility function suggests the same thing masculinity dimension suggests. Table 7.11 gives the masculinity index of the cases we compare:

Table 7.11: Masculinity in Hofstede’s Cultural Dimensions

	Country	Masculinity
	Italy	70
	Saudi Arabia	52
	Iran	43
	United States	62
	China	66
	Malaysia	50
	United Kingdom	66
	Hong Kong	57
Max		70
Min		43
Average		56,5

Source: Hofstede (2012).

7.2.1.1.3.2. Power distance

Power distance shows in what degree the “members of the society *accept* a hierarchical or unequal power structure” (Morrison, 2002: 138). Rollinson *et al.* (1998: 369; emphasis added) argue that “where power distance is low superiors and subordinates treat each other more as equals and there is a *strong tendency to try to*

minimise social inequalities”. If social inequalities are minimized then people’s discrepancy between their actual and ideal selves is smaller, which is tantamount to saying that low power distance cultures produce societies that comprise of individuals with fewer ‘needs’ and thus proportionally less motivation. Similarly, *higher degrees of power distance* would increase the altitude of the would-be-financial-criminals; ‘ideal selves’ from their ‘perceived (actual) selves’ and thus increase the ‘need’ and motivation for them. Likewise, “[i]n large power distance societies, people consider themselves to be inherently unequal and there is more dependence by subordinates on bosses” Hofstede (1991: 25). This is why we observe a more consultative style of management in low-power-distance cultures versus an autocratic or paternalistic style in high-power-distance cultures. Power distances of some selected countries are presented below as an index at Table 7.12.

Table 7.12: Power Distance in Hofstede’s Cultural Dimensions

Country	Power Distance
Italy	50
Saudi Arabia	80
Iran	58
United States	40
China	80
Malaysia	104
United Kingdom	35
Hong Kong	68
Max	104
Min	11
Average	57.5

Source: Hofstede (2012).

Morrison (2002, 139) argues that Asian, Latin American and African countries, where socialism exists more, “tend to have large power distances”, while Northern Europe and America, where we observe more market economies, have relatively small power distances,. This realization is important for this study. We would expect much less

power distance in socialist countries. At least, socialism, with all its aim of pressing down power differences should have had an effect on these societies, but it does not, according to Hofstede's (1991) research. It is possible to argue that those societies choose socialism because they require it, as they have a huge power-distance and realising this fact they choose to lessen it with the help of socialism. Even if this argument is correct, it is apparent that they failed to eradicate the social power-distance in a short time compared to the evolution of the social norms over many decades.

Nevertheless, we should be aware that Hofstede (1991) gave his questionnaire to sales and service staff, who do not really have much relation with CEOs, the white collar, upper-class individuals who are the focus of our study. Although Hofstede's findings are completely correct, they may not be adequate to lay down the whole power-distance picture of the society. Yet it does give a rough picture, because white-collar individuals are also raised in the same society and they are not alien to it. Truths about a part of the whole can represent the truth about the whole, at least approximately. In order to get a better representation of the whole we elaborate and confirm Hofstede's (1991) findings from other resources about power-distances of various cultures.

7.2.1.1.3.3. Uncertainty-avoidance

“The uncertainty-avoidance dimension deals with the cultural *acceptance of risk taking*. In a culture characterised by strong values of uncertainty-avoidance, values are weak, the ambiguities of life are more rapidly accepted, rules are not sacrosanct and can be abandoned with ease” (Rollinson *et al.*, 1998: 369). This is why people try to avoid risks as much as they can. When everything is ambiguous and everything is easily changeable there is much to be afraid of in the market. In high uncertainty-avoidance cultures, however, rules are considered to be sacrosanct and cannot be abandoned. This is a latent guarantee and eventually lessens the fear and increases individuals' capacity to take risk.

Morrison (2002: 139) confirms this understanding by arguing that “high uncertainty avoidance countries ... tend to be more expressive and emotional”. Low-uncertainty-avoidance cultures, on the other hand, mean “simply greater control of anxiety levels, not its non-existence”. This refines our synthesis of equating uncertainty-avoidance to haste/impatience in our theoretical conceptualization. Obviously, then, low-

uncertainty-avoidance cultures create more inclination towards financial crimes, because crime choice is always riskier than non-crime choice and there is less social opportunity to calm oneself down.

Uncertainty-avoidance is, apparently, a good reason to avoid taking the risk of getting caught and investing in comparatively more secure places (despite the lesser probable returns) and avoiding a vulnerable financial situation in the first place, *per se*.

7.2.1.1.3.4. Individualism

According to Morrison (2002: 139), individualism shows “the extent to which individuals perceive themselves as independent and autonomous beings”. Collectivism is at the opposite side of it, and they “see themselves as integrated into ‘in-groups’”. We can attribute clear belonging of ‘collectivism’ to the socialist countries and ‘individualism’ to market societies because some authors refer to market economies as a ‘free enterprise system’. Morrison (2002: 139) confirms this in stating that “[h]igh individualism scores occurred mainly in the English-speaking countries, while low individualism was prevalent in Latin American and Asian countries”.

Morrison (2002: 119) also argues that “societies which place greater value on the collectivity such as the family or the kinship group are likely to develop institutional structures which are more paternalistic... These societies are likely to value group loyalty more highly than individual freedoms”. Italy is an exception, because “founders and family members ... retain large shareholdings”. For instance Fiat’s owners hold a controlling block of shares to “act as a deterrent to takeover”(Morrison, 2002: 22).

These measures apparently have diversifying effects on financial crime motivations. For instance the preponderance of financial crimes is committed individually or in very small groups. Table 7.13 shows the individualism index of Hofstede (1991: 26).

Table 7.13: Individualism Index Ranks of Some Countries and Regions

Country	Individuality
Italy	76
Saudi Arabia	38
Iran	41
United States	91
China	20
Malaysia	26
United Kingdom	89
Hong Kong	25
Max	91
Min	6
Average	48.5

Source: Hofstede (2012).

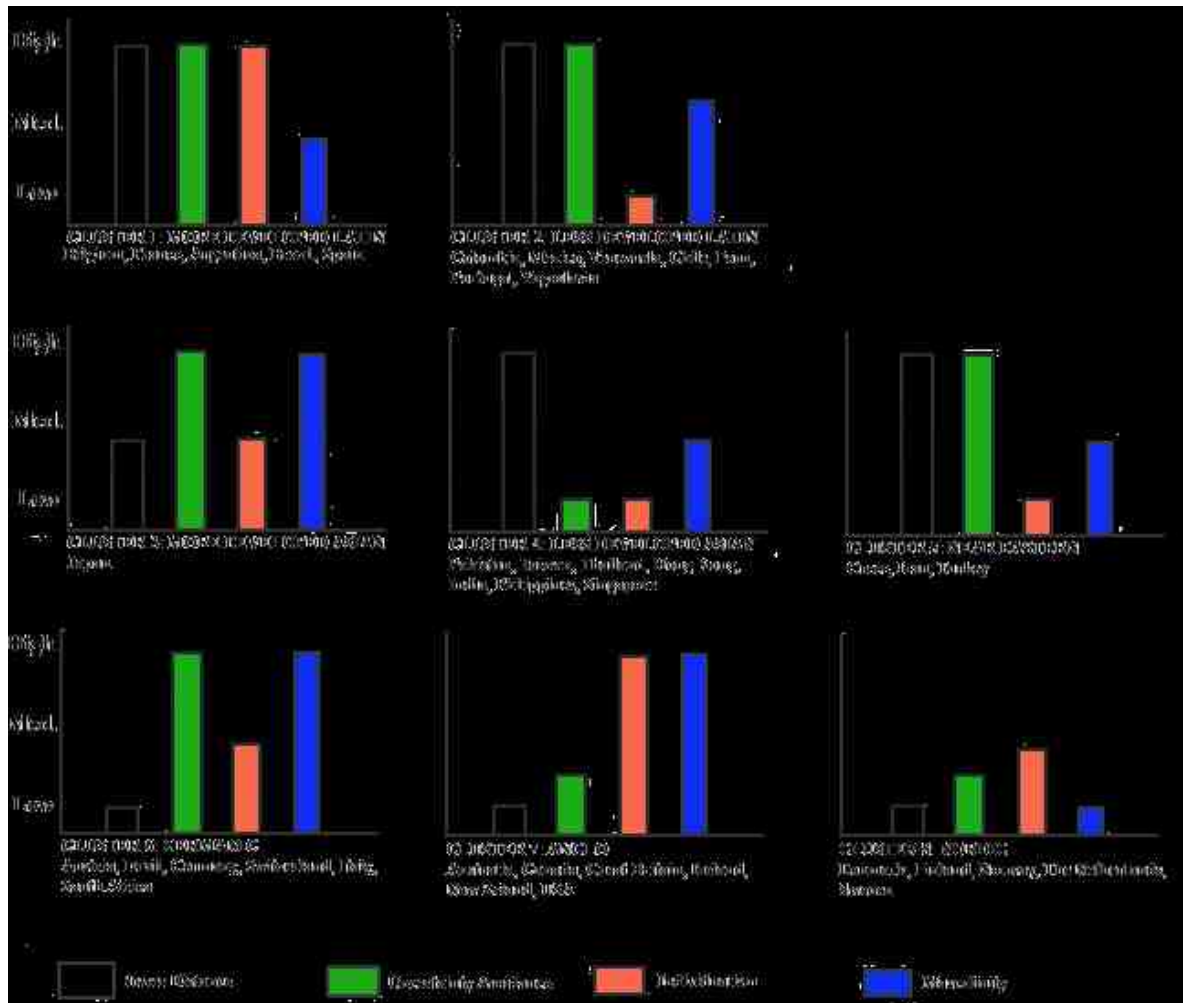
Thus, using these criteria, the *strongest* culture against financial crime deviance would be a culture with:

- (i) Low power-distance, individualism and masculinity;
- (ii) High uncertainty avoidance.

Let us now analyse the country groups we study and their corresponding cultures in terms of these measures provided by Hofstede and find out which culture or cultures are closer to this ideal, strongest form.

As seen in Figure 7.3, Hofstede forms eight distinct groups of cultures after surveying 100 countries (Robinson *et al.*, 1998: 560-562): (i) More Developed Latin; (ii) Less Developed Latin; (iii) More Developed Asian; (iv) Less Developed Asian; (v) Near Eastern; (vi) Germanic; (vii) Anglo, and (viii) Nordic.

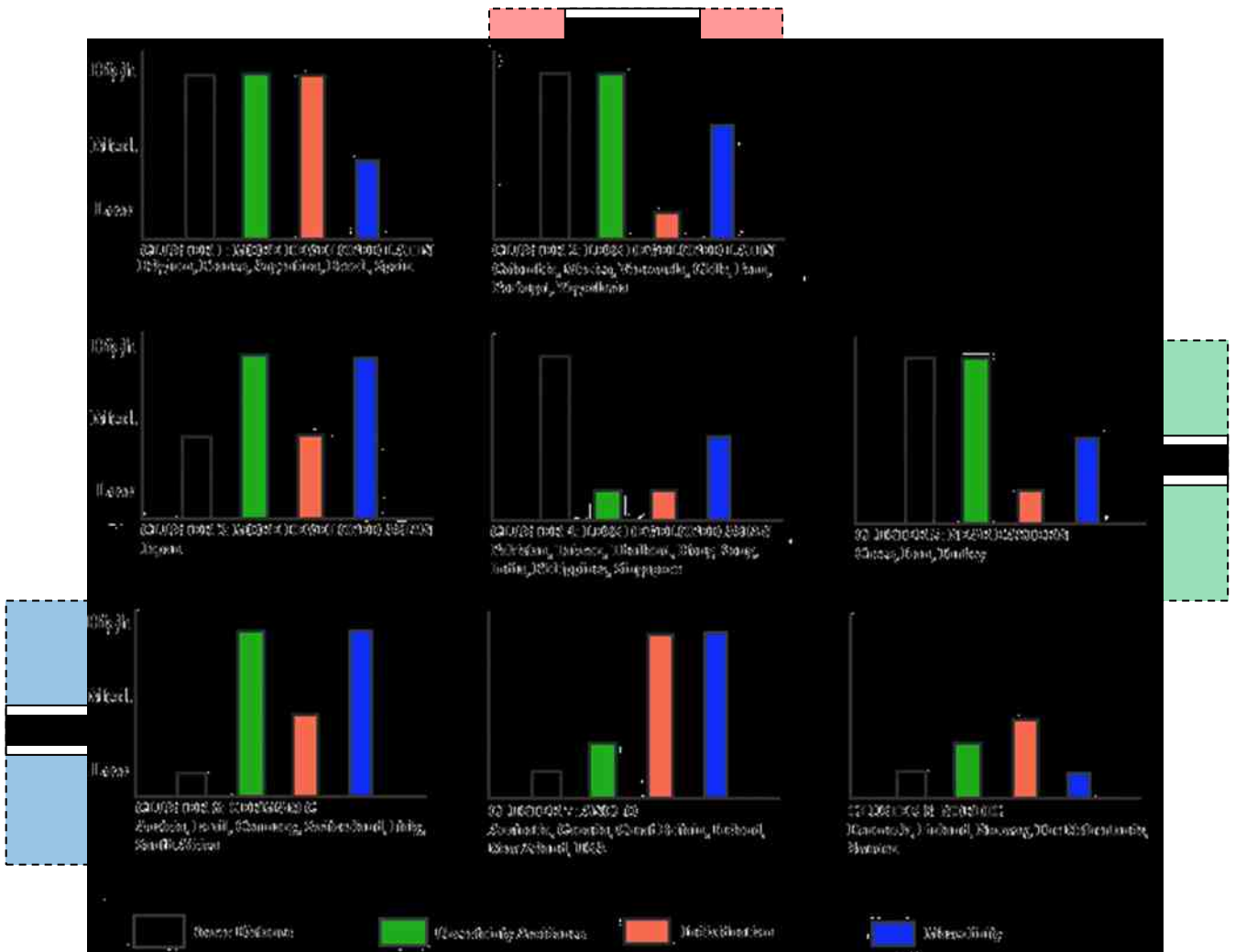
Figure 7.3: Global Cultures



Source: Rollinson *et al.* (1998: 369)

For the purposes of our study, we may distinguish and group these cultures to include the cases we study as shown in Figure 7.4 to form a more general, inclusive class of corresponding cultures.

Figure 7.4: Global Cultures with Corresponding Economic and Financial Systems



Source: Adapted from Rollinson *et al.* (1998: 369)

Among these, the culture groups ‘Anglo’, primarily, and ‘Germanic’, secondarily, can be considered as *market societies*, because the first group includes US, UK, Canada, New Zealand and Ireland while the second one includes Austria, Israel, Germany, Switzerland, South Africa and Italy.

Socialist culture then is denoted as ‘less developed Asian’ and ‘less developed Latin’, because in the first group there are the countries Hong Kong, Taiwan, Thailand, India, Pakistan, Philippines and Singapore, while in the second group are Mexico, Venezuela, Chile, Peru, Portugal and Yugoslavia. With few exceptions, “the groupings fit well with the historical and linguistic development of the countries,

which gives a plausible feeling about the clusters” (Robinson *et al.*, 1998: 560).

Finally, Hofstede puts Iran and Turkey in the category named ‘Near Eastern’ and with high power-distance, uncertainty-avoidance and low individuality Malaysia could easily be put in this group, and Arab countries¹⁵⁸ with high power-distance but comparatively more individualism than the ‘Near Eastern’ culture may be considered as closer to ‘Near Eastern’ culture. Then countries with Islamic finance are in this group only.

Consequently, Hofstede’s results show that liberal market economies are generally operating in an ‘Anglo’ culture, while less liberal market economies, such as the Anglo-Saxon-plus economy (Grey, 1993) operate in various cultures such as ‘Germanic’, ‘More Developed Latin’ and ‘More Developed Asian’. The characteristics of the ‘Anglo’ culture are: (i) Low power-distance and uncertainty-avoidance; and (ii) High individualism and masculinity. Other than uncertainty-avoidance, we may bluntly argue that ‘Germanic’ culture shares most of the characteristics of ‘Anglo’ culture.

It should be noted that Robinson *et al.* (1998: 561) see such a correlation between the cultures and their economic orientation, arguing that “high individualism only seems to be prevalent in certain developed countries, while those that are still developing tend to have more collective orientations”.

Comparatively socialism is more neatly distributed to cultures. Mainly, socialist countries in our study are placed under ‘less developed Asian’ and less so in ‘less developed Latin’ cultures. ‘Less developed Asian’ culture has the following characteristics: (i) unlike almost all of the market societies¹⁵⁹ high power distance and medium masculinity; (ii) low individualism and uncertainty-avoidance. Especially *low individualism* is clearly non-existent in all market cultures (‘Anglo’, ‘Germanic’, ‘more developed Latin’ and ‘more developed Asian’). This is bluntly¹⁶⁰ correct for ‘uncertainty-avoidance’ too. Interestingly there is no culture with lower uncertainty avoidance than ‘less developed Asian’ culture, which includes Hong Kong and

¹⁵⁸Uncertainty-avoidance ranking 67, masculinity 52, individualism 38, power distance 80.

¹⁵⁹cultures including, bluntly, ‘more developed Latin’ (France, Belgium, Spain) and ‘more developed Asian’ (Japan).

¹⁶⁰‘Bluntly’, because only ‘Anglo’ culture is not high in uncertainty-avoidance although higher than ‘less developed Asian’ culture.

Taiwan. The only difference between ‘less developed Asian’ culture and ‘less developed Latin’ culture is that the second has a higher degree of uncertainty-avoidance.

Interestingly, Islamic economies are almost uniformly distributed in the culture groups since they collectively reside under ‘Near Eastern’ culture. The main characteristics of this culture are (i) high power-distance and uncertainty-avoidance; (ii) low individualism; and (iii) medium masculinity. ‘Less developed Latin’ culture is very similar to this culture with slightly higher masculinity¹⁶¹. Second, the most similar culture group to the ‘Near Eastern’ culture (mostly Islamic) is the ‘less developed Asian’ (mostly socialist), which also has geographical neighbourhood to the Near Eastern culture.

Interestingly, Morrison (2002: 140) categorizes these groups differently by omitting two of the measures (masculinity and uncertainty) and decreasing the groups. This threefold categorization can be seen in Table 7.14.

Table 7.14: Cultural Differences between Selected Countries

	Power distance rank	Individualism rank	Masculinity rank	Uncertainty avoidance rank
<i>Group 1 (high power distance plus low individualism)</i>				
Indonesia	8-9	47-8	30-1	41-2
Malaysia	1	36	25-6	46
<i>Group 2 (low power distance plus high individualism)</i>				
Germany	42-4	15	9-10	29
Netherlands	40	4-5	51	35
UK	42-4	3	9-10	47-8
USA	38	1	15	43
<i>Group 3 (varying patterns)</i>				
France	15-16	10-11	35-6	10-15
Greece	27-8	30	18-19	1
Japan	33	22-3	1	7

Note: 1. Rank: 1 =highest; 53=lowest

Source: Hofstede, G. (1994) *Cultures and Organizations* (London : Harper Collins); various tables in Morrison (2002: 140).

¹⁶¹ Historical neighborhood between 8th – 15th century could be a reason.

This categorization of Morrison (2002: 140) forms more inclusive groups and captures economic and financial systems even more uniformly which makes it better operable by our study.

Morrison (2002: 140), as seen in Table 7.14, sees the second category as “high power distance plus low individualism” cultures, the second category as “low power distance plus high individualism” (the contradiction of the first group) cultures and the last category as “varying pattern” cultures. From the perspective of Robinson *et al.* (1998: 560-562), with eight identified cultures, the first category corresponds to the combined ‘Anglo-Germanic’ culture which now includes US, UK, Ireland, Italy, Germany, Canada, Australia, Austria, Switzerland, South Africa and Israel. Furthermore, this categorization also suggests that both socialist and Islamic cultures are social and show respect to power figures. As Morrison (2002: 141) puts it, “where people are less dependent on in-groups, shown in Group 2, they are also less dependent on powerful leaders”.

Then we should note that the safest culture for financial crime resistance is the Muslim culture as Table 7.15 and 7.16 depict.

Table 7.15: Relative Positions of Various Cultures Compared to the Most Resistant Culture against Financial Crimes

	Masculinity	Power Distance	Uncertainty-Avoidance	Individualism	Total Error
Most Resistant Form	1	1	5	1	0
Muslim Culture	2.5	5	5 (3)*	1	5,5 (7.5)*
Socialist Culture	3.5	5	3	1	8.5
Market Culture	5	1	3.5	4	8.5
Partially Islamised (calculated as the mid-system of market and Islamic finances)	$5 + 2,5 = 7,5$ $7,5 / 2 = 3,75$	$5 + 1 = 6$ $6 / 2 = 3$	$5 + 3,5 = 8,5$ $8,5 / 2 = 4,25$	$1 + 4 = 5$ $5 / 2 = 2,5$	$5,5 + 8,5 = 14$ $14 / 2 = 7$

Note: (*) Scores when ‘Near Eastern’ culture is combined with ‘Less Developed Asian’ culture. This score may be necessary because Rollinson *et al.* (1998: 369) mention Pakistan and India in ‘Less Developed Asian’ culture.

Table 7.16: Organized Indices of Hofstede According to Economic Systems Analysis

		PDI	IDV	MAS	UAI	LTO
Fully Islamized	Iran	58	41	43	59	
Partially Islamized	Saudi Arabia	80	38	52	68	
	Malaysia	104	26	50	36	
	Average	92	32	51	52	
Socialist	China	80	20	66	40	118
	Hong Kong	68	25	57	29	96
	Average	74	22.5	61.5	34.5	89
Market	Italy	50	76	70	75	
	United Kingdom	35	89	66	35	25
	United States	40	91	62	46	29
	Average	41.66	85.33	66	52	27

Masculinity

As Table 7.17 shows, both Anglo and Germanic cultures are very high in individuality, making them vulnerable to financial crimes compared with socialist and Islamic cultures, that is less developed Asian and Near Eastern cultures, respectively. However the discrepancy between them is not high on this measure.

Table 7.17: Masculinity Comparison of Various Societies as Hosts of Economic and Financial Systems

		Market	Socialist	Fully Isl.	Partially Isl.	Ideal	Total Error
Motivated Offenders	High Masculinity in the Society	5	3.5	2.5	2.5	1	
	Error	4	2.5	1.5	1.5		9.5

Note: 5 = Highest masculinity, 4 = high masculinity, 3 = moderate masculinity, 2 = low masculinity, 1 = very weak masculinity.

These analyses are general analyses and they need to be verified for specific offender types. We expect them to roughly repeat themselves. Let us see if they do.

Power Distance

As Table 7.17 shows, both ‘Anglo’ and ‘Germanic’ cultures, which represent market societies, are very low in power distance and ‘less developed Latin’ and ‘less developed Asian’ cultures which represent socialist countries are very high in power distance. Islamic countries are, like socialist countries, very high in power distance too. Keeping in mind the criticism we raised before about the macro level inabilities of the research on power distance, we then can put this order into Table 7.18 as follows.

Table 7.18: Power Distance Comparison of Various Societies as Hosts of Economic and Financial Systems

		Market	Socialist	Fully Isl.	Partially Isl.	Ideal	Total Error
Motivated Offenders	Power Distance	1	5	5	5	1	
	Error	0	4	4	4		12

Note: 5 = Widest power-distance, 4 = wide power-distance, 3 = moderate power-distance, 2 = narrow power-distance, 1 = very narrow power-distance

Uncertainty-Avoidance

As Table 7.19 shows, ‘less developed Asian’ culture is the lowest of all cultures in terms of uncertainty avoidance. Anglo culture is pretty low and a little higher than less developed Asian culture, but when we include the Germanic culture, which includes Italy, we may argue that the uncertainty-avoidance is moderate in market societies. And finally there is no doubt that Muslim countries are very high in uncertainty avoidance.

Table 7.19: Uncertainty Avoidance Comparison of Various Societies as Hosts of Economic and Financial Systems

		Market	Socialist	Fully Isl.	Partially Isl.	Ideal	Total Error
Motivated Offenders	Uncertainty Avoidance in the Society	3.5	3	5	3	5	
	Error	1.5	2	0	2		5.5

Note: 5 = Highest uncertainty-avoidance, 4 = high uncertainty-avoidance, 3 = moderate uncertainty-avoidance, 2 = low uncertainty-avoidance, 1 = very weak uncertainty-avoidance.

Individualism

Table 7.20 shows that ‘Anglo’ culture is very high in individualism however ‘Germanic’ culture is moderate. When we think of both in combination, we may argue that market societies are high in individuality and it is clear from Figure 7.4 that less developed Asian and Near Eastern cultures, which correspond to socialist and Islamic cultures respectively, are the lowest in this measure.

Table 7.20: Uncertainty Avoidance Comparison of Various Societies as Hosts of Economic and Financial Systems

		Market	Socialist	Fully Isl.	Partially Isl.	Ideal	Total Error
Motivated Offenders	Individualism in the Society	3.75	1	1	1	1	
	Error	2.75	0	0	0		2.75

Note: 5 = Highest individualism, 4 = high individualism, 3 = moderate individualism, 2 = low individualism, 1 = very weak individualism.

In Tables 7.21 through 7.26 comparison of the cultural environment of financial systems is made and the systems we analyse are put in an ordinal position in relation to their position and performance accordingly.

Table 7.21: Comparison of the Cultural Masculinity of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Socialist/Transitional Financial System
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.22: Comparison of the Cultural Power Distance of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.23: Comparison of the Cultural Uncertainty-Avoidance of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Market/Capitalist Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.24: Comparison of the Cultural Individualism of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Socialist/Transitional Financial System
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.25: Comparison of the Cultural Opportunity Space of Financial Systems (as Total Impact of Masculinity, Power Distance, Uncertainty-Avoidance and Individualism)

Their Order	Financial Systems
1 + 3 + 2 + 1 = 7 (most vulnerable)	Market/Capitalist Financial System
3 + 1 + 1 + 3 = 8	Socialist/Transitional Financial System
2 + 3 + 2 + 2 = 9	Partially Islamized/Moral Financial Systems
4 + 1 + 4 + 4 = 13 (least vulnerable)	Fully Islamized/Moral Financial Systems

It is more feasible to convert these numbers to corresponding values those are closer than 4 in order not to inflate the effects of societal factors in our comparative analysis in the following parts of the text.

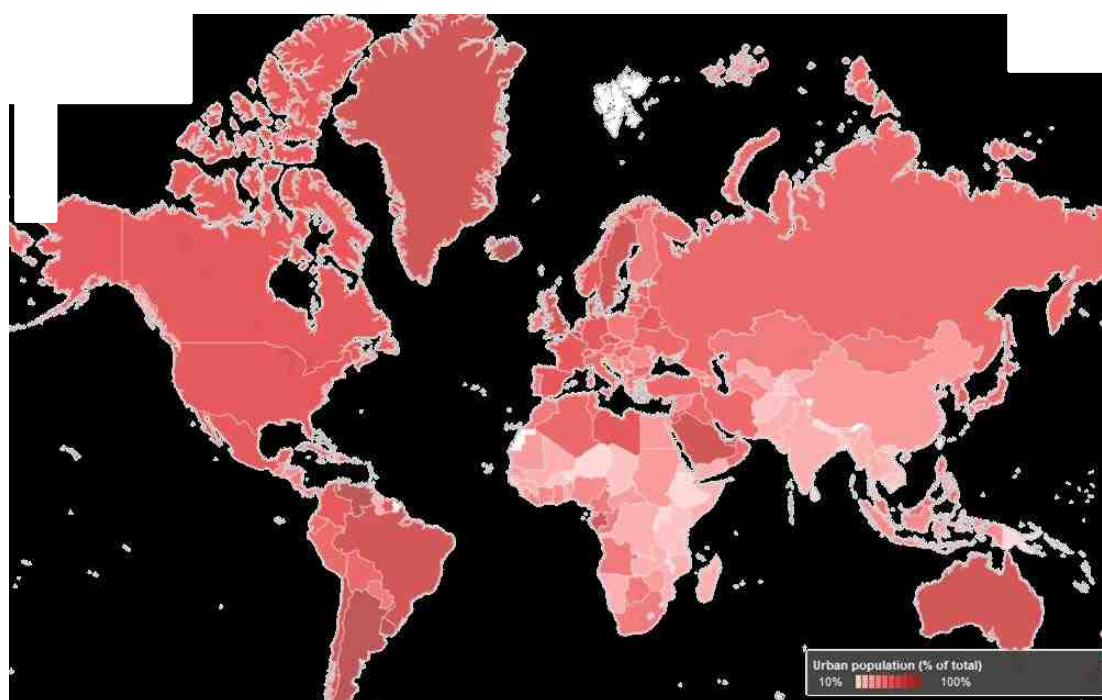
Table 7.26: Comparison of the Cultural Opportunity Space of Financial Systems (For Further Comparison)

Their Order	Financial Systems
7 / 4 = 1.75 → 1 (most vulnerable)	Market/Capitalist Financial System
8 / 4 = 2 → 2	Socialist/Transitional Financial System
9 / 4 = 2.25 → 3	Partially Islamized/Moral Financial Systems
13 / 4 = 3.25 → 4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.1.1.4. Economics as a greater opportunity space

The effects of the economic environment on the financial world are obvious and self-explanatory. While comparing international economic environments, Morrison (2002: 23) focuses on the ‘growth’ of the economy and is specifically concerned about whether there is a recession or unemployment, whether ‘wages and consumer spending are rising’ and whether there are regional differences or differences between various sectors (in our case finance and service sectors) in growth/recession. For instance, Siegel (2009: 75) argues that criminal opportunities abound in urban environments where facilitators are also readily found. As the international urbanization index in Map 7.4 shows, market societies are more vulnerable to financial crimes.

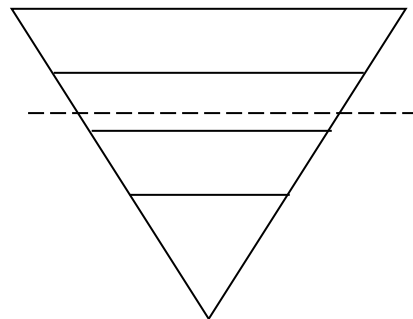
Map 7.4: 2013 Urban Populations as Percentage of Total Population



Source: World Bank, 2013

In market economies the base of financial crime opportunity (see: Figure 7.5) is higher; the economically least advantaged people have more opportunity to commit financial crime. For instance, credit cards are available for everyone and big loans for financial investment are still possible for such people if they have a clear credit history (Peston, 2008). Laws are loose (*e.g.* one-time bankruptcy with no punishment) and guardians are not well equipped with formal codes (*e.g.* auditors can be paid by the audited)

Figure 7.5: The Base of Financial Opportunity in the Market Economy



There is a big difference between socialist financial opportunities and capitalist financial opportunities for financial criminals. There is no doubt that the market economy allows its members to deal with a great deal of financial information by providing them with necessary institutions, technologies, education, economic and financial infrastructure and even the life-style and other sociological and psychological means.

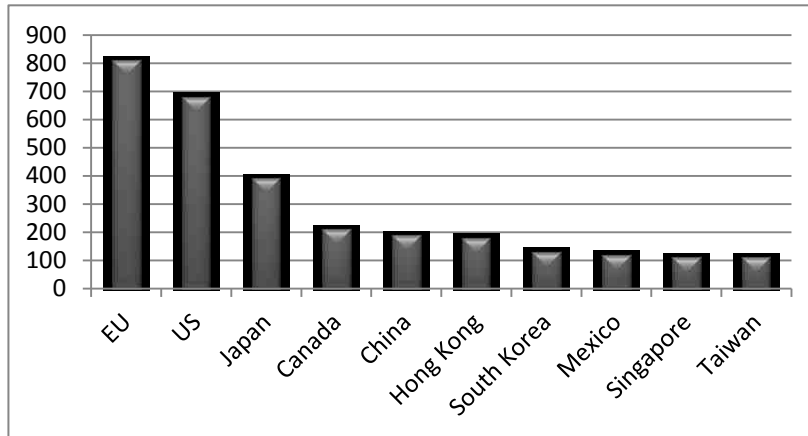
Table 7.27: Size of the Economy in Selected Countries, 1998

Economy	GNP, 1998 (\$billions)	GNP per capita (dollars) (Wealth Distribution)	GNP per capita, measured at PPP (dollars)	National Debt as percentage of GDP in 1998
China	928,9	750	3,220	20.5
Malaysia	79,8	3,600	6,990	
United Kingdom	1,263.8	21,400	20,640	
United States	7,921.3	29,340	29,340	

Source: World Bank (2000); World Development Report 1999/2000

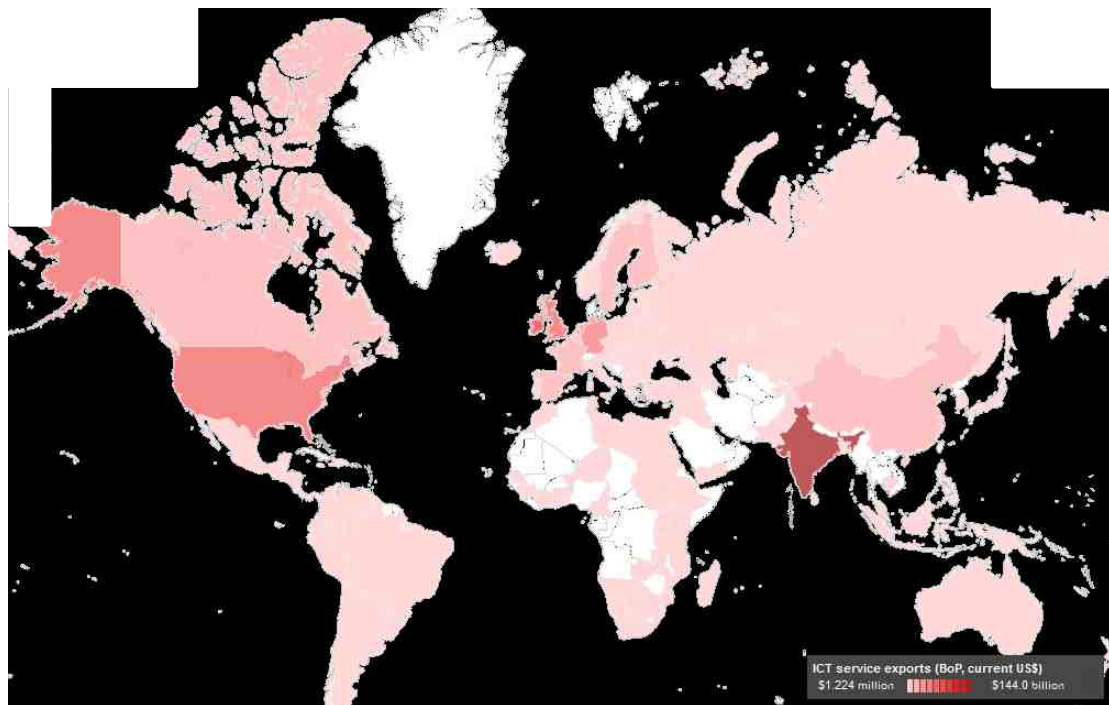
Undoubtedly the market economic system performs better than both Socialist and Islamic economic systems (see Table 7.27, Graph 7.1, 7.2 and Map 7.5, 7.6) and consequently produces more opportunity for both legal and illegal activity.

Graph 7.1: Leading Exporters in World Merchandise Trade, 1998 (\$US)



Source: World Trade Organization statistics (2000), available at <http://www.wto.org>.

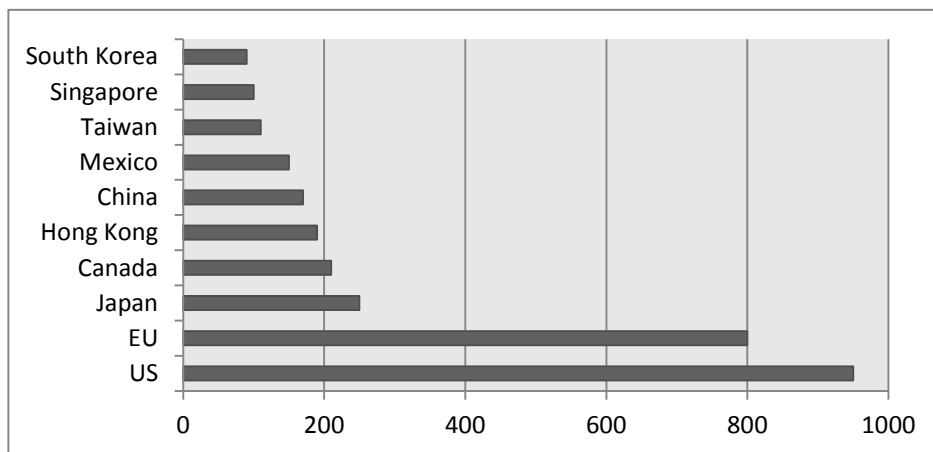
Map 7.5: Information and communication technology (ICT) service exports (BoP, current US\$) in 2013



Source: World Bank, 2013

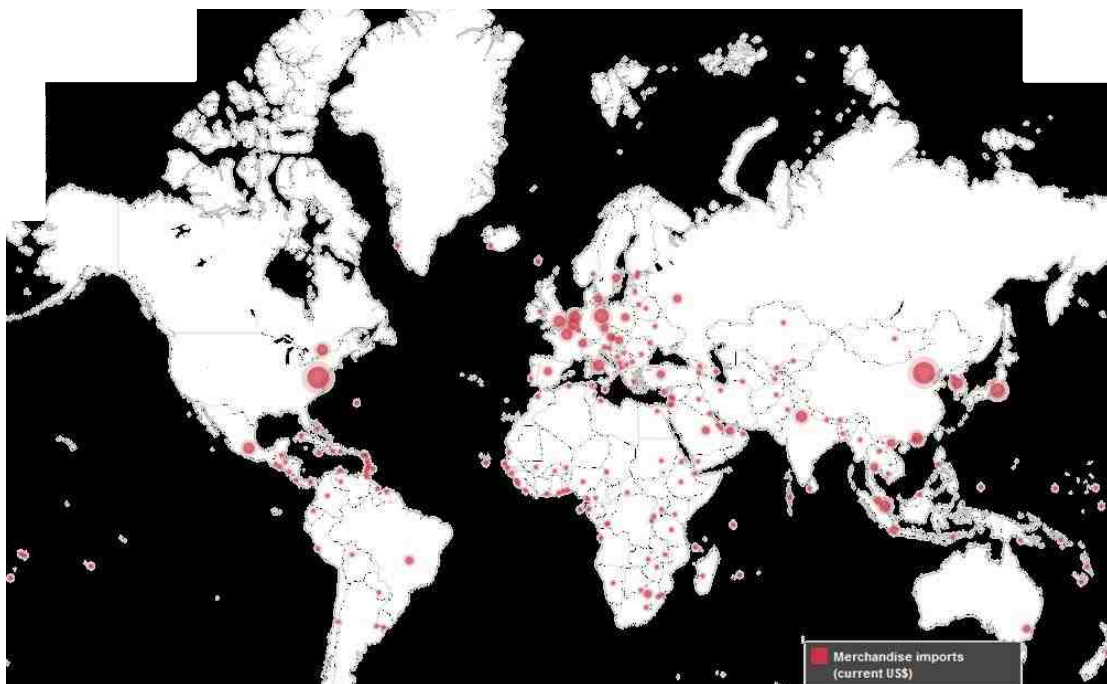
As Map 7.2 and Map 7.3 show, there has not been a significant difference since the 1998 figures shown by Graphs 7.3 and 7.4.

Graph 7.2: Leading Importers in World Merchandise Trade, 1998



Source: World Trade Organization statistics (2000) available at <http://www.wto.org>.

Map 7.6: Merchandise imports (current US\$) in 2013



Source: World Bank, 2013

Socialist and Islamic economic systems are also producing opportunities, but less than market economies and when compared to each other one can mention the nature of many Islamic economic systems as rentier economies, while Russia (when socialist) and China emerged as great economic and political powers of the 19th and 20th centuries comparable to the best powers of the market economy. Thus, socialism has produced more economic opportunity than Islamic economies over the last three decades and is thus more vulnerable to financial crime from the point of view of the economy. Table 7.27 quantifies our conclusion for this specific parameter, ‘economic environment’ as a greater opportunity space. The order reached in Table 7.28 is followed by the other means of comparison until the final analysis.

Table 7.28: Comparison of Economic Environments of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.1.1.5. Corporate environment as a greater opportunity space

Financial corporations have been such great powers for the last three decades that now they play the roles the agents and institutions of the real economy play but with heavy financialisation. Initial public offerings, corporate financial investments and bond issuance of companies are only a few examples of financialisation.

Stemming from various corporate structures and practices financial opportunities are sometimes confined and sometimes expanded. For instance ‘*empowerment*’ provides a better opportunity space, while ‘*performance based payments*’ produce more vulnerability. Shiller (2008) gives some examples, such as stock options as payments to CEOs triggering frauds and speculation.

We then can visualise different kinds of opportunity spaces that are affecting the financial opportunity space in a single framework. This framework may be useful to

depict financial crimes changing dynamically in a given time span, here from 1980 to 2010.

There are many examples of bad corporate culture in the financial environment. For instance, Curtis (1998) argues that;

To the traditional bankers from Barings, the 1980s culture that was taken over was strange and alien but it was one that was making them a great amount of money. Far more than they had made as much for bankers but what made that money was the willingness to cut corners and cheat customers. It was a culture that Leeson knew well, where extra profits were often skimmed off clients' accounts.

It is pretty clear from our analyses that the market system is more vulnerable in this parameter as well, because the corporate environment in market systems is more competitive, more demanding and more individualistic, whereas it is very calm in socialist systems as it is based on solidarity¹⁶². As Islam accepts the ideas of the business firm, private investment and private property it is more vulnerable to financial crime in corporate settings than Socialist *kolhozs* (collective farms).

Table 7.29 quantifies our conclusion for 'corporate environment' as a greater opportunity space of FWCC. The order reached in Table 7.29 is followed by other similar tables until the final analysis.

Table 7.29: Comparison of Corporate Environments of Financial Systems as Greater Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

In order to summarize our analyses up to here a statement of 'total impact' is necessary. The following tables (Table 7.30 and Table 7.31) can be used for such an objective:

¹⁶² Campanella's *City of the Sun* discusses this phenomenon decades before Marx and does not provide a convincing argument.

Table 7.30: Comparison of the Total Impact of Greater Financial Opportunity Spaces

Their Order	Financial Systems
1+1+1+1+1 = 5 (most vulnerable)	Market/Capitalist Financial System
2+3+3+3+2 = 13	Partially Islamized/Moral Financial Systems
4+2+2+2+4 = 14	Socialist/Transitional Financial System
3+4+4+4+3 = 18 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.31: Comparison of the Total Impact of Greater Financial Opportunity Spaces

Their Order	Financial Systems
5 / 5 = 1 → 1 (most vulnerable)	Market/Capitalist Financial System
13 / 5 = 2.6 → 2	Partially Islamized/Moral Financial Systems
14 / 5 = 2.8 → 3	Socialist/Transitional Financial System
17 / 5 = 3.4 → 4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.1.2. Greater defensive spaces of financial systems

We may define the defensive space as the presence and availability of the laws, policies, institutions, services *etc.* to keep the individuals away from criminal activities. We need to analyse the defensive system separately, because it would be a mistake to equate the lack of opportunity and defence.

Available opportunities are important for crimes against property. Shichor (1990) is one of the researchers who showed this effect. According to him, as the economic development increases in a given country, the number and value of crime targets increase.

Nevertheless, this is only one of the reasons. Shichor (1990) also argues that along with the number of targets, the emphasis of the society on material gains changes as well¹⁶³. Indeed our grounded theory shows that this chain of concepts affect each other and the effects may be traced back to the society and its socio-economic

¹⁶³This reminder of Shichor (1990) also reveals some hints about the changing utility-functions that are changing the dominant dimension of the utility functions depending on the circumstances and environment but not isolated from the choices of the society.

structure, which produce more/less motivated and probably more/less frustrated people and eventually an increase/decrease in the economic growth and frustration along with their volume of motivation and the level of deviation for the ones that are weak in psychological, biological, sociological and moral ways.

In the same context, Reichel (1990) argues that the increase is multiplied by the facts that in modern, economically more developed countries law enforcement institutions are more capable, they have electronic surveillance, recording *etc.* and citizens are more educated and they report more crime to police, and thus, they catch more criminals and produce more statistics.

Nevertheless, from the point of view of RCT, this reasoning *per se* does not really make sense, because a rational property offender's calculations have to take into consideration that crime awareness is high in his/her environment and that he/she should either give up committing crime, considering the imminent threat of apprehension and punishment because of full awareness about crime, or understand that he/she has smaller opportunity space for committing financial crime in his/her new environment which is now alert to crime. However both of these calculations would produce less crime.

For instance, consider that a city police department deploys a new 'forensic accounting unit' where many professional accountant police are employed to fight against financial wrongdoings by the public. A rational financial criminal living in that city, among other things, would also calculate that law enforcement institutions are more capable now, that they have all the means to capture criminals, and thus would stop committing crime or wait until the weakest moment comes. Thus, in this new state of the society, gains of the crime do not exceed the losses out of the crime because punishment is more certain and quick compared to the past. Indeed this is what the legal system aims at: balancing those rational options. Indeed, this is an intuitive reasoning, because the fact that there are more targets requires that there have to be either more capable guardians (depending on the strategies of the guardians) or more punishments attached to those targets. Since governments are also rational players it is not reasonable to argue that their efforts are useless and

irrational¹⁶⁴.

A more detailed explanation can be found in Appendix A of various codes of guardians, targets and punishment. Nevertheless, in short, it can be argued that success of the guardians per se does not increase crime. This is against the meaning and emergency aim of the guarding institutions such as police. As long as the society is aware that guarding is better in the society or the awareness of crime is higher, the rational criminal would immediately adjust¹⁶⁵ to the current environmental settings of the crime¹⁶⁶.

This is why we cannot only rely on the idea that property offences are the result of an increase in the number and value of property or opportunity, because even very big opportunities can be balanced out via capable guardians, the legal system, punishment policies, policing techniques, education, social environment *etc.* and thus refraining from crime can be rationalized.

Research shows that criminals not only try to avoid guardians, but also are aware of the capabilities of the guardians. For example, if the property offenders feel that there are police in the area or even nosey neighbours, they avoid targets (Tunnel, 1992). Sampson and Cohen's (1988) research, on the other hand, reveals that criminals know and avoid the areas of active, 'crime-fighting' cops.

Levitt and Dubner (2006:16) argue that "economics is, at root, the study of incentives" and "[t]he typical economist believes the world has not yet invented a problem that he/[she] cannot fix if given a free hand to design the proper incentive scheme". However, incentives are formed differently in different settings and this is a matter of financial crime disposition. Levitt and Dubner (2006:16) give an interesting example,¹⁶⁷ where financial incentives designed for decreasing certain behaviours in

¹⁶⁴ It should be noted that the arguments are based on *stable* definitions of crime (see Chapter 2). If for instance a city police department decides to enforce a law which is not usually enforced this cannot be considered an increase in the crime rate because increase requires a continuum.

¹⁶⁵ Admittedly, 'delay' exists in the adjustment processes and it is inevitable. If some research, (especially the ones conducted immediately after a public policy on crime fighting) statistically proves the 'increase' as argued by Reichel (1990), those studies have also to prove that the increase is outside the time span of delay.

¹⁶⁶ In fact it is possible to rephrase all the environmental factors mentioned in the text as the *crime scene* of the financial white collar crime. This is indeed a preferred wording for the policing studies.

¹⁶⁷ Despite an announced fine of \$3 per child/day for late pickups, families increased the number of late pickups from 8 per week to 20 per week.

fact more than doubled those behaviours.

The literature usually refers to these complex defensive spaces as informal guardians, because their role is secondary but very important and even sometimes determining. The informal guardians are usually proactive; they act before the crime. Their effects are precautionary and deterrence focused. Unlike these guardians, though, formal guardians are active, after crime forces are deterrence focused, they either anticipate, assuming the existing crime and waiting for it, or know that a crime has been committed and investigate it. This is why they are - in time- very close to crime unlike informal guardians.

Many criminologists agree that perceived *informal* sanctions directed by family members and peers rather than formal ones from government and other formal institutions have the greatest effect of deterrence (Hollinger and Clark, 1983; Grasmick and Bursik, 1990; Williams and Hawkins, 1989; Paternoster, 1989). Among them the most effective are the intimate handlers.

7.2.1.2.1. *Social relations*

Passive guardianship consists of the social ties between the individual and his/her family, spouse, partner, housemate, relatives, neighbours, townsmen, friends, colleagues, clubs, fellowships, societies, fraternities, associations etc. Both the quality and quantity of these social relationships affect the individual in many ways. For instance, people with rich social relationships may have a decreased need gap to satisfy compared to others who lack such relationships. For instance, white collar people are at the highest layers of Maslow's (1954) hierarchy of needs which are self-esteem and self-actualization. Unlike other, low-level needs these needs at the highest layers are *relative needs*. These needs cannot be fulfilled out of the society. Praise, appreciation, admiration, applause is necessary for an individual who would like to fulfil the *need gaps* as a white-collar person and if in certain societies people have many social relationships and opportunities to receive social appreciation while others lack it in other societies, this discrepancy between these societies is worth focusing on. Thus, crime vulnerability increases in

absence of an *intimate handler*, a significant other, for example a parent or girlfriend – that can impose informal social control on the offender. A potential offender must escape the 'intimate handler' then find a crime

target without being under the surveillance of this ‘capable guardian’ (Burke, 2006: 46).

Research shows that as the *divorce* rates increase the crime rates increase which could be because of the decreasing number of some of the very important passive guardians (NYU, 2011; p: 4).

Parental supervision and monitoring is also an important active guardianship because parents are physically very close to the would-be offender. Chase-Lansdale *et al.* (1997), Klebanov *et al.* (1997), Sampson (1986) and many others argue for the importance of the family in many ways.

Individualism, one of the cultural dimensions of Hofstede’s (1994) study, can be used to distinguish the cases we compare. Table 7.32 below shows the individualism index of Hofstede (1991: 26) in which Italy is an exception because “founders and family members ... retain large shareholdings” in Italy. For instance Fiat’s owners hold a controlling block of shares to “act as a deterrent to takeover” (Morrison, 2002: 22) in Italy.

The individualism index of Hofstede (2012) can also represent a comparative level of social relations between certain societies depicted in Table 7.32.

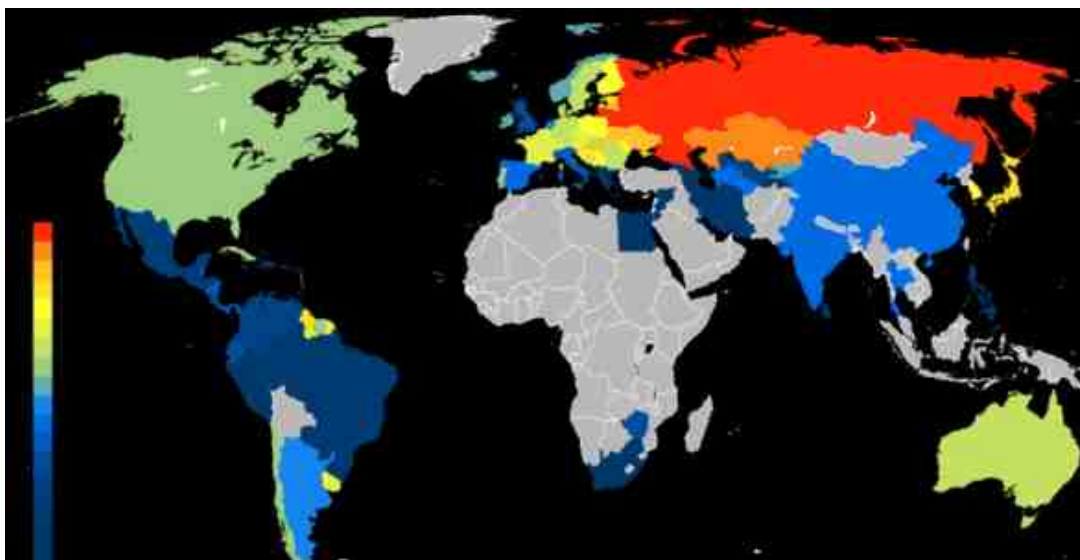
Table 7.32: Individualism Index Ranks of Some Countries and Regions

Country	Individuality
Italy	76
Saudi Arabia	38
Iran	41
United States	91
China	20
Malaysia	26
United Kingdom	89
Hong Kong	25
Max	91
Min	6
Average	48.5

Source: Hofstede (2012).

Suicide rates in various countries can also be taken as evidence of the strength of social relations. Suicide rates are shown in Map 7.7.

Map 7.7: Suicide Rates in 2009



Source: World Health Organization, 2011

Thus, we may put the financial systems under scrutiny in the order shown in Table 7.33 which quantifies our conclusion for ‘social relations’ as a greater opportunity space.

Table 7.33: Comparison of the Social Relations of Greater Financial Defensive Spaces

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.1.2.2. Ethics education

Education is another informal guardian. According to the Schlaefli, Rest, and Thomas study (as cited in Cagle & Baucus, 2006, in Ryan, 2010) ethics education positively

affects ethical behaviours. Ghoshal (2005) blames business schools' exclusion of ethics and morality from their curriculum for the commonplace corporate misconducts. He also argues that the management theories describe totally opportunistic, self-interested, egoist individuals. "Some research has shown business students (undergraduate and graduate) differ from nonbusiness students in their views towards ethical issues" (Ryan, 2010: 86). Likewise, Henderson (as cited in Brown, 1994: 105) believes business graduates "suffer from *ethical naiveté*—a generally low level appreciation for the complex moral questions that often underlie business decisions which are formulated and evaluated in purely profit terms".

Students themselves think that the school does not prepare them for value conflicts (The Aspen Institute, 2003). Yet in a recent study of 1,700 MBA students in the United States, Canada, and the UK, students overwhelmingly (70%) blame the personalities of business leaders for the corruption witnessed in recent years (The Aspen Institute, as cited in Henle, 2006).

"While there is general acceptance of business *ethics in business education*, there is no clear standard of what ethics courses should teach" (Stewart *et al.*, 1996: 913). According to Ryan (2010), The Association to Advance Collegiate Schools of Business (AACSB), the accreditation body for business schools, is responsible for the rise and fall of the ethics portion of the curriculum.

According to Ghoshal (2005), business schools are part of the ethics problem. They are held accountable for producing ethical businessmen, however their attention to ethics varies widely (Evans *et al.*, 2006). "Perspectives suggesting how to teach ethics in business school, what to teach, and even if to teach it at all are prevalent in the literature covering a span of at least 15 years and arguably more than an entire century" (Ritter, 2006: 153).

Solberg *et al.* (1995) found that out of 323 business school deans, only 16% reported that they required a stand-alone business ethics course and of those, 58% of the ethics courses are elective. Evans and Robertson (2003) found that 25% of MBA programs require a course on business ethics, but Evans *et al.* (2006) found that the top 100 MBA programs required no ethics-related courses. Furthermore, Walker (2005) found that among the 1800 respondents a significant number reported that they had no ethics

training. In search of the reason, Evans and Robertson (2003) attribute the state of ethics education in business schools to the lack of faculty interest.

Shaw (1996) reports that ethics courses are left to philosophy departments, which can provide no real ethical dilemmas in business life. Morris (2001) argues that this share is almost half and half between business departments and philosophy departments. Half of the business schools do not have a specific course for business ethics and at the ones that have such courses, insider trading and leveraged-buyouts, primary ethical concerns in Wall Street, are covered in 12% at the undergraduate studies level and in 6% at graduate level. (Rozensher and Fergenson, 1994). Furthermore, Velthouse and Kandogan (2007) found that ethics was the least important skill for MBA students. “The typical MBA curriculum allocates little time, if any, on defining acceptable managerial behavior and the consequences of pursuing improper behavior” (Williams *et al.*, 2000: 697).

Eventually, Ghoshal (2005: 75) blames business schools for the ethical corporate scandals and argues that they “do not need to do a great deal more to help prevent future Enrons, they need only to stop doing a lot they currently do. They do not need to create new courses, they need to simply stop teaching some old ones”. However, Ryan (2010) could find no significant difference between ethical responses of business students with ethics courses and without ethics course. She also looked at the content of the ethics courses. Thus we may argue that it is probably not as easy an issue as Ghoshal (2005) argues to develop ethicality in businessmen, because it is a rather complex issue and it involves many variables from very diverse courses of social life.

In evidencing all these, Abdullah and Valentine (2009: 93) state that “[o]nly a handful of business giants have had any formal education on business ethics but there seems to be more compromises these days... Through the process of educating and exposure to good virtues, the development of ethical values in a child’s life is evident” (Abdullah and Valentine, 2009: 93).

Greater financial defensive spaces play a complex role in deviance. It is possible to find out linkages to crime from various walks of the social, biological, psychological life. But determining whether these linkages, these effects, are merely correlated to

this complex, wide phenomenon or if they are indeed the causes of it is not easy, because “as the divorce rate changed over the twentieth century the crime rate increased a few years later. But this does not mean that divorce causes crime. Rather than divorce causing crime, divorce and crime rates might both be due to other social processes such as secularization, greater individualism or poverty” (Vaus, 2001: 3).

For both of these criteria, the market system is the most vulnerable system, because it is based on individualism, liberty and freedom. There are considerably less social relations created by the city life and the technological advances that make electronic mechanisms of socialization possible in the modern world. The market system both leads and makes use of these technologies and life-style in the highest frequency. Besides, not only the economic system but ethical, political, international relations, legal *etc.* systems of the market societies are based on utility choices, which are at the heart of the Western education system as well. This is why the market system’s *greater defensive system* is large compared to the other systems.

Socialism, on the other hand, is the system that emphasizes the social bonds and relations in life, and educates the public according to those principles. Indeed some research about such education is presented in the section where utility dimensions are discussed in this text.

As for the ethics education in socialist schools, we may mention the research by Hemesath (1994) who showed that American and Soviet students’ rational choices in prisoner’s dilemma games with real monetary gains were significantly different. “In the 88 games played, a total of 176 decisions were made: 90 by Russians and 86 by Americans. The Russians cooperated 72.2% of the time, while the Americans did so only 51.4% of the time” Hemesath (1994: 85). Hemesath (1994: 92) claims that “the implied defection rate for the American students, 48.8, is consistent with other recent data on American students playing the prisoners’ dilemma game”. Indeed, this is a perfectly rational (in the classical sense of the utility function) result for repeated prisoners’ dilemma game for Americans because this way of playing decreases the probability of predictability by the other player as low as possible (lowest being at 50%). The strategic form of the game applied by Hemesath (1994) with exact payoffs can be seen below (Game 7.1):

Game 7.1: Prisoner’s Dilemma Game with Monetary Payoffs in Roubles.

		Other Player	
		Cooperate	Defect
You	Cooperate	300 for other 300 for you	500 for other 0 for you
	Defect	0 for other 500 for you	100 for other 100 for you

In Socialism, the whole system is based on the idea of solidarity. Therefore, Socialism deserves to be at the bottom of the comparison of vulnerability. This analysis automatically determines the position of both partially and fully-Islamized systems. These analyses are quantified in Table 7.34.

Table 7.34: Comparison of Ethics Education as a Greater Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.1.2.3. Belief of afterlife

This criterion is necessary because in some environments, financial systems such as Islamic finance have the ability to frighten its members with punishments in other worlds. This ability at least doubles the deterrence ability of financial systems with beliefs of afterlife. This belief is not only confined to established religions or Abrahamic religions only. Belief systems such as Confucianism or others believing in reincarnation have the same advantage compared to cultures with a belief system that does not have such characteristics.

In this regard socialism tops the list because of Marxism’s and Leninism’s well-known attitude against religion, nevertheless Confucian Chinese and Christian Russians do have such belief systems, but in the market economy people with beliefs

in afterlife are more numerous compared to socialism, and Islamic finance is in the most advantageous position in terms of this criterion.

Table 7.35 from The European Values Survey gives some of the societies' responses to their belief of afterlife or reincarnation:

It is rather surprising that the former Communist states of Eastern Europe show this relatively high degree of belief in survival after death, whatever the form. Even in Russia about one-third believes in reincarnation. The effect of anti-religious propaganda on the beliefs of the populations of Eastern Europe seems to have been rather slight" (Haraldsson, 2006: 175).

Table 7.35: Persons Who Believe in Life After Death and Reincarnation

	Reincarnation	Life after Death	R/L
United Kingdom	29	58	-
Italy	18	73	24
Russia	32	37	75

Source: Haraldsson, E. (2006).

Table 7.36 quantifies the parameter 'belief of afterlife' as a greater defensive space. The order reached in Table 7.36 concludes our comparison of greater spaces and Table 7.37 and Table 7.38 depict the summaries of 'greater defensive spaces' and 'greater spaces' in general respectively. In the following section, the comparison continues with the 'immediate opportunity spaces' before the combined summary.

Table 7.36: Comparison of the Belief of Afterlife as a Greater Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Market/Capitalist Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.37: Comparison of the TOTAL IMPACT of Greater Financial Defensive Spaces

Their Order	Financial Systems
$1+1+2 = 4/3 = 1.3 \rightarrow 1$ (most vulnerable)	Market/Capitalist Financial System
$2+2+3 = 7/3 = 2.3 \rightarrow 2$	Partially Islamized/Moral Financial Systems
$4+3+1 = 8/3 = 2.6 \rightarrow 3$	Socialist/Transitional Financial System
$3+3+4 = 10/3 = 3.3 \rightarrow 4$ (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.38: Comparison of the Combined Total Impact of Greater Financial Opportunity and Defensive Spaces

Their Order	Financial Systems
$1 + 1 = 2 \rightarrow 2 / 2 = 1$ (most vulnerable)	Market/Capitalist Financial System
$2 + 2 = 4 \rightarrow 4 / 2 = 2$	Partially Islamized/Moral Financial Systems
$3 + 3 = 6 \rightarrow 6 / 2 = 3$	Socialist/Transitional Financial System
$4 + 4 = 8 \rightarrow 8 / 2 = 4$ (least vulnerable)	Fully Islamized/Moral Financial Systems

Along with informal guardians there are formal guardians such as banking standards, accountancy standards, computer networks, security standards, finance laws, regulations *etc.* We explain those forces after explaining the financial opportunities.

7.2.2. Immediate Spaces in Facilitating Financial Crimes

Unlike *greater* opportunity and defensive spaces, *immediate* spaces are the closest opportunities and adversities to the financial crime in both time dimension and the spatial dimension. These spaces have greater and faster effects on the deviance behaviours of the financial white collar criminals.

7.2.2.1. Immediate financial opportunity spaces of financial crime

Primarily, the financial opportunity spaces are formed by local, national and international private and governmental financial institutions like central banks, investment banks, commercial banks, insurance companies, stock markets, mutual funds, corporations and individuals who enter into/leave markets and every kind of transactions such as mergers, buyouts, bankruptcies, and financial services, like issuing currencies, announcing interest rates, opening up or closing down, all

financial techniques, methods, tools enforcing and regulating bodies and/or announcing/abolishing laws by governmental agencies form the financial opportunity space *etc.*

We may mention many factors of financial opportunity spaces as immediate factors affecting financial crimes, such as pressure on accounting, efficiency of the markets, routine financial activities, expectation of the markets, concentration of agents, flexibility, level of control, complexity, efficiency, dependency (for instance manipulation and price-fixing is dependent on market power), performance and concentration or heterogeneity. Let us now compare the financial systems according to these factors.

7.2.2.1.1. Entropy

The main characteristic of the financial environment is its fastness, its dynamicity, increasing the level of entropy. Increasing entropy in the international financial institutions is “raising broad questions of stability and control”. For instance, whether “[t]he advent of e-commerce, which facilitates almost instantaneous securities transactions around the globe, benefits the public is a major concern of stock market regulators” (Morrison, 2002: 314). Long term business projects TQM, Kaizen and various other organizational change projects also have various effects on financial opportunity space because organizational change processes are usually described as chaotic environments with less order, less predictability and high risk.

With financial diversification and accessibility, citizens are engaging more and more with the market (Wahlström and Peterson, 2006: 363; Micheletti, 2003) and “lodging their challenges and concrete demands directly at businesses and corporations” (Micheletti, 2003) in recent decades and the leading markets are the Western markets.

Shichor (1990) agrees that socio-economic change brings about anomie in the society and eventually causes criminality. This is why the countries in transition are affected from the consequence of the drastic change in their marketplaces. Russia and China are prominent examples, because Chinese and Russian societies have moved towards a market-oriented economy in a relatively very short time. But the level of entropy is higher in market societies compared to socialist and Islamic system, because the market system has been the leading system of new technologies, methods, techniques

and relevant education, research, development, innovation *etc.*

The socialist financial system follows the market system in terms of increasing entropy, because unlike established religions they are not restricted or controlled by the steel rules of the moral system.

For instance some of the markets, such as alcohol and pornography, restricted to the Islamic finance, are not restricted to them¹⁶⁸. Almost all of the financial contracts of the market system such as futures contract, options contract, debt based assets, are also prohibited to Islamic finance in their original forms but they appear under new and altered structures such as *musharaka* certificates, *ijara sukuk*, *mudaraba* certificates, inter-bank investment (MII), government investment certificates (GIC) etc. Since the pace of new kinds of asset development in Islamic finance is fast, especially in recent years, and cannot be matched by socialist development, Islamic finance’s immediate financial opportunity space is more active, more dynamic and more energetic. However, these developments are not comparable to the developments of the market system with its below milliseconds electronic markets (NPRO, 2013). Nevertheless every new development in the market system is benchmarkable by the socialist system, unlike Islamic finance. This is why it is not easy to decide the level of entropy discrepancy between the socialist and Islamic financial systems and the market system.

As Table 7.39 shows, the financial systems can be put in the order of ‘entropy’ as an immediate opportunity space for FWCC. The order reached in this table is followed by the other means of comparison until the final analysis.

Table 7.39: Comparison of Entropy as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

¹⁶⁸ Muller and Teaching Company (2008) argue that interest is also prohibited in socialist economies.

7.2.2.1.2. Ownership of financial assets

In the modern era, as Newman (2005) agrees, the structure of firms has dramatically changed, from one person/family owned small firms to firms like GM, Nokia, and Intel where keeping individual ownership or family ownership was almost impossible. This hardship first led to the group ownership of firms, namely corporations, and then, in the context of capitalism, ‘collective’ (Bradburn (2001: 117) prefers to use the word ‘public’) ownership via the stock market of firms.

These changes brought about a rather complex ownership structures of firms in the late 20th and early 21st century, where we use terms like ‘stakeholders’, ‘shareholders’, to denote modern ownership styles. These structures basically mean that, when one collects enough of the shares of a company, one can actually gain the legal ownership of firms¹⁶⁹. So, then, we may talk about a *running ownership* of the firms especially in recent decades and especially in outsider-dominated, Western financial systems¹⁷⁰. The consequences of this structure are that the firm is now only good in the market if it is perceived to be rising, regardless of its size, wealth and history, because the owner is not stable and thus has no principle, liking, preference, moral, perspective *etc.* that can be predicted. However, in more stable ownership structures, families are usually known to have an expertise, a specific industry of preference and an honour, dignity, name, *etc.* to protect in the long term.

A pension fund director says: “the responsibility of ownership rests with people who don’t want it and are not seeking it” (Solomon, 2010: 11). Bradburn (2001: 117) agrees that the modern ownership structure is a contributing factor to financial fraud. Consequently, shareholders, who own but do not want to own companies, try to overcome the principal-agent problem by voting for takeover (Jensen and Ruback, 1983) and force the manager to lose his/her job, which eventually causes greater concentration in the market though.

It should be noted that firms and especially accountants, practicing in such financial environments, apparently have a much greater opportunity space for financial crimes,

¹⁶⁹ Adam Curtis, in his documentary, *The Mayfair Set*, broadcast by BBC2 in 1999, gives some examples of actual takeover of some firms by stock holders.

¹⁷⁰ Excluding Germany

especially for fraud, competition crimes and tax evasion.

In this regard, we may argue that the loose ownership structures would provide a bigger opportunity space for financial criminals and *vice-versa*. Then, we may put capitalist ownership at the top of our ordinal order for this specific measure because of having very loose ownership structures.

In socialism, there is no private but rather public ownership. Similar to stock market ownership, socialist economies manage the total belongings of the whole country by a certain group of managers (usually communist party members) and they do not own those assets but act as an agent to the principal (the whole public in this case). Since we study financial white-collar criminals, socialism deserves the second place according to this measure *per se*, because the ownership structure is fairly unclear. For instance, as experienced in Russia, the owners of the ‘shares’ of state conglomerates, ‘the commanding heights of the economy’ (Cran *et al.*, 2002), are all the members of the society. So are the banks, universal insurances, all the pensions and central banks. This widest possible sphere of financial asset ownership produces conflicting interests and/or confusion. Indeed the literature reports many examples of bad behaviour by socialist white-collar individuals in this context¹⁷¹.

As far as Islamic ownership is concerned, it requires a very stable ownership and thus is the least vulnerable against financial crimes under ownership structures. However, recently, Islamic *sukuk* are allowed by renowned scholars and complicate the comparison. Nevertheless, inside our constrained time-frame we may still argue that the Islamic ownership structures are the least vulnerable to financial crimes because they produce less opportunity.

Table 7.40 quantifies our order for the ‘ownership of financial assets’ as an immediate opportunity space.

¹⁷¹ See: Hollingsworth M., and Lansley S. *Londongrad: From Russia with Cash; the Inside Story of the Oligarchs*. London: Fourth Estate.

Table 7.40: Comparison of Ownership as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Nevertheless if we make a distinction of frequency order and magnitude or severity order we may argue that socialism should top the list in terms of the severity of the financial crimes committed in socialist financial systems, in terms of ownership structures, because the whole market is controlled by very few people and their activities are not under the open scrutiny of the public, because as experienced in China now, court personnel are also communist party members. This is why the blurred Socialist ownership structure is indeed open to financial crimes in terms of this criterion only.

7.2.2.1.3. Pressure in financial markets

One can measure the stress levels in financial markets by looking at the performance indicators, the pressure on accountancy. Excessive pressure in financial markets is not something recent. In 1932, in the US, S&P 500 companies were paying out 180% of their earnings as dividends. This type of practice is indeed “typical” for depression eras (Shiller, 2010). It is clear that paying more than one earns is not something rational. The fact that this practice is typical in financial markets even in dire positions is important evidence that the markets are under great pressure. Shiller (2010) argues that this is something cultural. If it is so, there should be variations between different systems that affect financial crime propensity and our analyses indicate that the market system is under more pressure than both of the compared systems. In this sense, Islamic financial markets have more pressure applied than socialist markets in domestic financial affairs but less so in international financial affairs.

Until 2000 (entrance to the WTO in 2001), China was a closed, socialist country. It was only after its entrance to the WTO that “foreign banks [were] able to offer services directly to Chinese companies, in competition with Chinese banks, for the

first time” (Morrison: 2002: 77). Considering that its national debt was far below the Maastricht Convergence Criteria (approximately 20% of GDP), we may argue that China had a more balanced financial environment. Moreover, until the last decade, China did not have a liquid bond market, centrally controlled its capital markets and wanted to replace the revenues that local authorities obtained from numerous fees with central taxation (Morrison: 2002: 77). All of which suggests that Chinese financial opportunity space until the last decade was rather confined compared to market economies in terms of the pressures applied to the markets. Nevertheless, further analysis is required for the comparison of socialist and Islamic finance.

Morrison (2002: 331) argues that “[m]ergers and acquisitions ... are key to companies’ growth strategies. A major driving force has been the enhancement of shareholder value, bringing cost savings and efficiencies”. If M&A activities are the key activities of growth, these routine activities imply that companies have many incentives to have a monopoly position in the market in their everyday activities. In this sense, the Chinese economy has more opportunity than both partially and fully-Islamized economies but Islamic countries are in debt to international lenders. Partially-Islamized economies have more liberal stock markets as well.

Table 7.41 shows the ordinal places of their vulnerability for FWCC in terms of the ‘pressure in financial markets’.

Table 7.41: Comparison of the Pressure on Markets as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Socialist/Transitional Financial System
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.2.1.4. Expectations of the market

Especially in some financial systems, ‘expectations of the market’ is the fundamental mechanism. Expectations may stem from the central planning office in socialist

countries and big stockbroking houses for instance in market economies. Predictably, expectations of the financial markets differ greatly from system to system. What is important here is the seriousness, the impacts, the consequences and the level of ambitiousness of those expectations. When they are high, we may argue that the likelihood of an institutional blind eye towards financial crimes increases, which in turn increases the opportunity for financial crimes, especially competition crimes and financial fraud.

Price to earnings ratio in finance is a good example of the effects of expectations in financial markets. For instance in 2000, the price to earnings ratio was 46 to 1 (46/1) in NYSE (Shiller, 2010).

In many market economies, expectations “come from big stockbroking houses that forecast the profits from a particular company and then use this projection as recommendation to buy or sell shares” (Bradburn, 2001: 118). These projections are very stressful for the companies because they (Bradburn, 2001: 118, emphasis added):

become a benchmark for the company. If the company fails to meet the projection then its rating inevitably becomes dented. Too many failures and the bottom may drop out of the market for the hares altogether. A company that has undervalued shares is *very vulnerable to a takeover*.

Clearly, then, in market economies, many of the companies are under great stress to reach or exceed the expectations of the market, because “[m]ost publicly quoted companies are stretched between telling the analyst what they want to hear and then actually delivering the results. If they do fail in reality then creative accountancy may well be the *only solution*” (Bradburn, 2001: 118, emphasis added).

Fraud and competition crimes then, are the first and foremost vulnerable kinds of deviance for this measure of market societies. Market economies expect better performance from their agents than other financial markets in other systems do and the agents have the same perception. For instance, the “[p]olicies of liberalization and deregulation in the 1990s led to inflows of capital, as investors [became] attached to high rates of interest and trusted that governments wouldn’t allow their banks to fail” (Morrison, 2002: 327).

And the “[i]nvestors ... look for companies that produce very good results there and then. Essentially, if you are a company that does not make optimistic noises about the

future you may well end up with a low share price even if you are actually doing well” (Bradburn, 2001: 118).

Especially in socialism there is no need to have great expectations in internal financial markets, because socialism bans competition in the first place. This is why one can only expect external, international competition in socialism, because competition with international companies and conglomerates and countries is encouraged. For instance relatively more pressure is expected to be felt by the state companies operating in defence, telecommunications, space *etc.* and central expectations from the national agents are high in these markets, because socialism calls for universal solidarity and claims rule over all the working-class.

Socialism bans speculation as well. This is a reason for less expectation from the financial markets. For instance a socialist farmer cannot wait for the raising of wheat prices by the central planning office but has to sell at a planned time and planned price. Nevertheless the idea of universal solidarity is not very strong and Islam has a similar approach in terms of universal solidarity and bans speculation too.

Indeed Islam does not officially and explicitly recognize competition either, but does accept it as a reality, implicitly, and encourages solidarity, philanthropy and charitable giving (*sadaqa*) in the sense of developing ‘competition but also cooperation’ mentality. In partially-Islamized economies competition is more visible and in fully-Islamized economies the expectations from financial agents can be more realistic because of the financier who “should become a real investor, prepared to play a participatory role as investor along with the entrepreneur (*i.e.* in *mudharabah* and *musharakah*)” (Asutay, 2010).

Indeed, from a macro perspective, the socialist economy identifies itself through economic phenomena and through the criticism of capital (*i.e.* by *Das Kapital*). Therefore, one would expect its public and thus its management to expect more from all economic and financial activities of the state and its commercial branches. Unlike both socialism and capitalism, Islam does not identify itself through material argumentation. This is another reason why especially fully-Islamized finance is not significant in its vulnerability to financial crime in this specific factor of comparison.

This is why we may conclude that socialism and fully-Islamized finance are the least

vulnerable systems to financial crime in the context of market expectations, because Islam does not ban competition and partial-owners of the *shirkah* may have expectations of higher gain both in national and international markets in addition to the rulers of the economy and finance.

Table 7.42 shows the ordinal level of ‘expectations of the financial markets’ as an immediate opportunity space.

Table 7.42: Comparison of Expectations as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Socialist/Transitional Financial System
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.2.1.5. Efficiency in the markets

It may be one of the most important theories of finance, but ‘efficient markets’, although accepted very strictly by some (*e.g.* Brealey *et al.*, 2006) are only a hypothesis (Shiller, 2010) and they have strong, semi-strong and weak forms (Roberts, 1967). Some prominent finance practitioners say that they “don’t believe” that financial markets are efficient (Redleaf, 2010).

Fisher Black, who apparently has the semi-strong perspective, says “markets are very efficient. By that I mean, that prices are usually within twice fundamental and half fundamental value” (Shiller, 2010). However some of the authors (*i.e.* Bradburn, 2001; Robert, 1967) do not agree with even the weakest forms. Bradburn (2001: 117, emphasis added) presents one of those arguments in his book on business ethics and gives an example from accountancy:

“[T]he majority of businesses are owned by large institutional investors ... such as pension funds and other fund managers ... [They] are looking for a regular growth over a period of time. You may think of a pension fund as an example. In this case, progressive steady growth is needed. In reality, few businesses can achieve this and wide fluctuations are inevitable. Over time the net result will be the same of course, but the variations may unnerve

investors.

A simple solution would be to ‘smooth out’ the performance of the company by holding back sales in certain periods and putting them through in others. This strategy is known as ‘keeping things in the bottom drawer’ and is remarkably common.

These “remarkably common strategies”, undoubtedly, slow down the market to the lowest performer sister firm under the control of, say, the pension fund and create an orchestrated market with less efficiency.

Redleaf (2010) provides an analytical reasoning for the proof of inefficiency by referring to the shares of Shell, because identical shares of Shell in Holland *vs.* the UK fluctuated dramatically in 1998, by 20% compared to its identical counterpart. “The growth of international financial institutions, raising broad questions of stability and control in financial markets has drawn both praise and criticism” and the criticism was “the risks of instability and *vulnerability to financial shocks* (Morrison, 2002: 314; (emphasis added).

These strategies of course have devastating effects on the financial opportunity spaces, which in turn undoubtedly affect the magnitude of the financial crimes in various financial systems. For instance, while analysing competition crimes, we then have to know at least the major players in the financial markets and try to predict *their* rules of the game while comparing the rough probability of the concentration in the markets because we can no longer analyse the emergence and enforcement (*i.e.* by competition authorities) of the market failures in a doubted competitive environment.

We should, then, note the comparative departures of all financial systems from perfectly efficient equilibrium in order to correctly evaluate competition crimes, speculation and fraud specifically.

In socialist financial systems, for example, markets are the least efficient because everything from money supply to labour price is controlled by the central planning office and thus all the prices are artificial. Immediately after releasing the control on the markets one expects a huge departure from the current prices. Indeed this was what happened after the collapse of the USSR; prices increased greatly and all the commodities disappeared for many days but reappeared after a while with the correct prices (Cran *et al.* 2002). In this sense one may consider socialist financial markets as

systems running on artificial, fixed, controlled prices, which are a crime in the West and in Islamic finance. Since the whole system is planned accountancy has a goal to accomplish for both sellers and buyers and thus the accountancy is just an extension of the central planning office, which means that unreal accountancy records are the norm and correct timing, amount and price is an anomaly in such markets, because it is very hard to rule a very complex system with all possible detail from one office. There is no doubt that manipulation of the markets is also an everyday job in socialist countries because the managers of the economy are ordered officially to do so.

Market finance, as the name suggests, is more efficient than centrally-planned financial systems, because an open market is a complex system and as a complex system it auto-adjusts better than all the controls and plans.

Islamic finance, likewise, follows the market system in openness and freedom of interaction, because there is a recognition of the market in Islam, first of all, and it stems from the right to private ownership. Thus, members of an Islamic financial environment can seek various types of trading, which is restricted by some *nass* or norms. It is, however, hard to reach a synthesis between market finance and Islamic finance, because Islamic finance also suggests the open market. Islamic finance has some restrictions on open markets (*e.g.* ban on interest, ban on some industries such as alcohol *etc.*), but market economies have such restrictions as well (*i.e.* ban on marihuana, fixing prices at crises¹⁷² *etc.*). Nevertheless, market finance has fewer restrictions on the markets.

Making a fair distinction of vulnerability by using this criterion, then, is only possible if one can make an efficiency distinction between the unlimited free market and semi-controlled free market. Looking at the leftmost side of the dichotomy, we already showed that the total control produces less efficiency. Since the other extreme side of the dichotomy is a no-restriction-market, it is not hard to argue that no-control-markets also produce inefficiency.

Besides, what is really important is the level of efficiency after the set-principles and restrictions, because as long as the restrictions are not significantly different the large number of transactions in the markets (with significant differences of efficiency)

¹⁷² By US at the time of the First World War for instance.

overrides the difference caused by the restricting principles. In this sense, we recognize that even in very severe conditions the Prophet Muhammad did not fix the prices despite some of his disciples going to him and asking him to do so. Thus, in the first best solution case, even the state has no right to fix prices in Islamic economics and finance, which is a very important criterion for our comparison.

In providing a frame of operation rules, Asutay (2010) agrees that Islamic finance calls for a “more stable and transparent system. In such a system there is an automatic adjustment of real assets and their financial counterparts. In the conventional banking system there is no such mechanism for adjustment”.

As mentioned before, both market finance and Islamic finance have some restrictions in the market, but in an Islamic financial system the market seems to be more efficient compared to the market finance which produced the central banking system, and has a separate finance department other than the treasury to monitor and control it, although the interference is scarce. Indeed, further discussion is necessary on this specific comparison, but we leave this discussion to further research and reason that market finance is less efficient compared to the Islamic finance and thus more vulnerable to financial crime.

As Table 7.43 shows, the financial systems can be put in the order of ‘efficiency’ as an immediate opportunity space.

Table 7.43: Comparison of Efficiency as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Market/Capitalist Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.2.1.6. Long/short term focus

RCT supporters, such as Cohen and Felson (1979), found that changes in everyday activities were correlated with changes in crime rates. For instance, short term

markets have a considerably higher exchange frequency of financial assets. Then the frequency changes in financial systems can also be a criterion of comparison between financial systems because higher frequencies create bigger opportunities for financial criminals.

Keynes (1923) argues that “[t]he long run is a misleading guide to current affairs. In the long run we are all dead”. In the finance world short-termism is almost a rule. Short termism is defined as “a tendency to foreshorten the time horizon applied to investment decisions, or raise the discount rate above that appropriate to the firm’s opportunity cost of capital” (Demirag and Tylecote, 1992: 17). Countries and corporations with a short-term focus are usually running on ‘outsider-dominated’ corporate governance structures (Frank and Mayer, 1994; Short, *et al.*, 1998), and the greatest numbers of outsider dominated corporations are in the market system, because they are forced to immediate successes, directly by managers with their own perceived self-interest (Boatright, 1999) or/and indirectly, by institutional investors for instance.

Indeed, long-termism in financial markets narrows down the opportunity space for the financial crimes, because “creative accounting cannot make up for long-term poor performance” (Bradburn, 2001: 118). Comparatively short term operations and the short-sighted mechanism of the financial markets provide financial institutions and their employees with a greater opportunity space. For instance, in stock markets with more long term investors, public companies are in less stressful environments,¹⁷³ because they can have better performance in the future and when the future comes, their poor performance would be smoother in a longer term picture.

Creative accounting “can really be viewed as a short-term [fix] to paste over the cracks” (Bradburn, 2001: 118), which makes especially ‘fraud’ the number one vulnerable deviant financial behaviour in short-term financial markets.

There are many recent techniques like ‘*high frequency trading*’, which basically means collecting and analysing the data very quickly, in milliseconds usually, and putting them on trade at incredibly high frequency and in short periods. Trading

¹⁷³ Indeed it is proven by researchers in US that the stock market is the most profitable financial market compared to all possible financial markets for almost two hundred years (Shiller, 2011).

according to the popular Google search terms is a good example. Indeed this has been a historical trend of financial markets; driven by market economies, financial trading's time span has constantly been shortened in the markets.

Criticizing this short term focus of the market system, Alan Greenspan complains that “[w]e cannot live in the present only. Human-beings cannot survive unless they create provision for the future” (Creadon *et al.*, 2009).

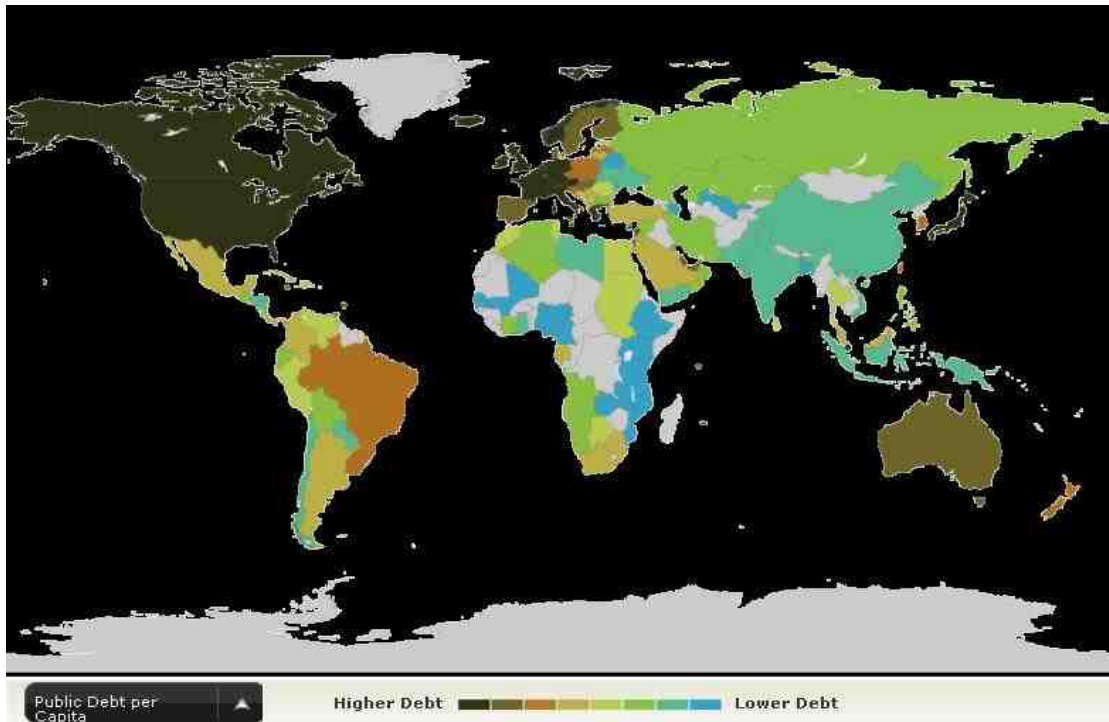
Recently, financial professionals and quants are discussing the problems of unequal opportunities in the current financial markets, because of some firms having abilities of reaching the electronic financial markets 1/10 second faster than others (done by ‘big firms’). This is indeed considered very ‘disturbing’ and ‘unfair’ by some professionals in the field such as Emanuel Derman (2010), who is also known as the Einstein of Wall Street. For Derman (2010) and some other scholars financial markets are now trading at the speed of light and unlike the October 1987 crash which happened within a day¹⁷⁴, the next crash can happen within minutes.

The Islamic economy is undoubtedly more long-term oriented compared to the market economies, because it discourages a debt-based economy. The ban on interest is one of the most important discouragements of debt because lenders have less incentive to lend, knowing that they cannot receive a secure gain, but rather invest their money in the real economy and thus for long term profit. This is why it is rational for the rich in an Islamic economy to develop ‘risk-sharing, stake-holding, participatory’ behaviours in the economy (Asutay, 2010). The centrality of *musharakah* (profit-loss-sharing) and *mudharabah* (venture capital) contracts can be considered as examples of such characteristics of the Islamic economy.

Since debt is one of the prime causes of haste in the economy, we can confidently put the market economy to the top of the order of vulnerability. The basis of this conclusion can be seen from Maps 7.8 and 7.9, which depict public debt in 2000 and 2010.

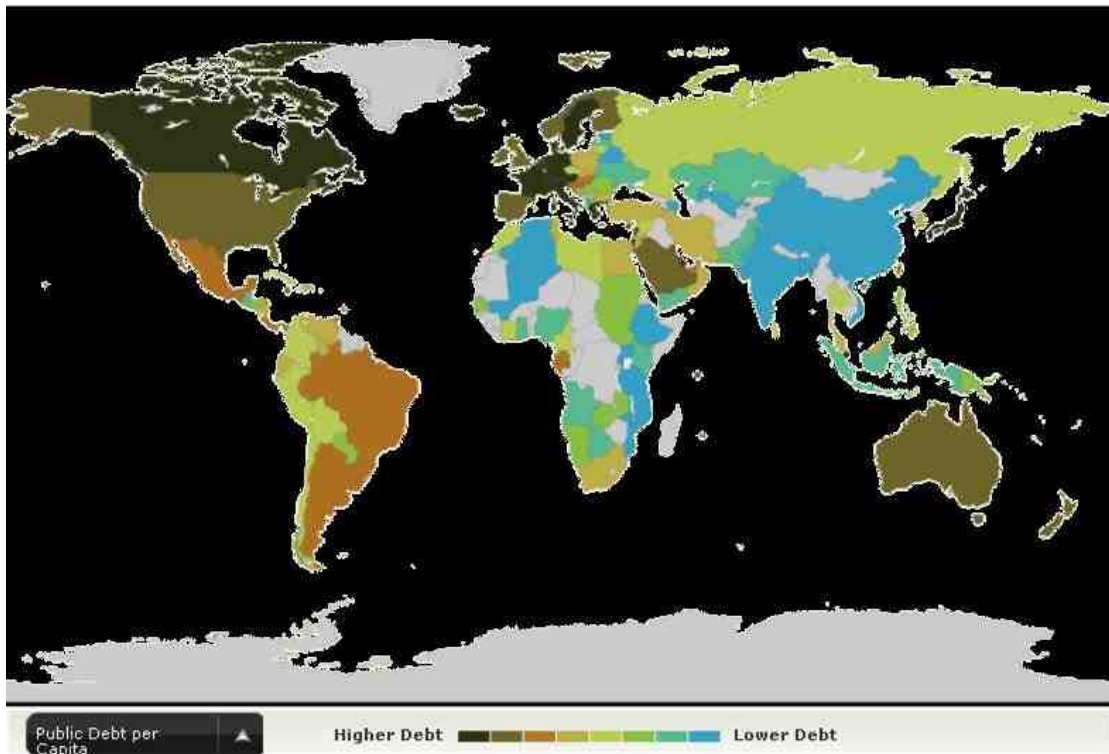
¹⁷⁴ 20% fall of S&P 500.

Map 7.8: Amounts of Public Debt in 2010



Source: The Economist 2012 (economist.com)

Map 7.9: Amounts of Public Debt in 2000



Source: The Economist, 2012 (economist.com)

Hofstede (1996) also studies the time orientation in different cultures, which was originally studied by Michael Harris Bond. Morrison (2002: 139) describes time-orientation as “people’s time perspectives in their daily lives”. According to Bond (2002: 139), there are “different time orientations between Western and Eastern ways of thinking”, that is, “[s]hort-term orientation stresses satisfying needs ‘here and now’, and is more characteristic of Western cultures, whereas long-term orientation stresses virtuous living through thrift and persistence, and is prevalent in Eastern cultures” (Hofstede, 2002: 140).

Therefore, the Socialist financial system is at the bottom of the list and market finance heads it. Socialist finance’s position is pretty clear, because what is important for the socialist management is the long term aims of the economy, such as enough production, delivery and investment to produce a nurtured, educated society with no illness and the promised solidarity. It is intuitive to know that these aims cannot be reached by focusing on short-term performance in the central planned economies. Nevertheless this is correct only because we study white-collar financial crime, because the public in this case would economically be very short-sighted since they do not need to think about their own and their families’ futures. It is all planned by the government and thus they have all the incentive to finish what they have until the closest planned delivery.

Thus, financial systems can be put in the order of ‘long/short term focus’ as an immediate opportunity space as shown in Table 7.44.

Table 7.44: Comparison of Short/Long Term Focus as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.2.1.7. Concentration of agents and assets

As can be seen from Table 7.45, market finance has the biggest players of the finance world. In the hedge funds market many of the firms are from market economies.

Table 7.45: The Biggest Hedge Funds in 2007 in Billion Dollars

1. JPMorgan Asset Management	44.7
2. Bridgewater Associates	36
3. Farallon Capital Management	36
4. Renaissance Technologies Corp.	33.3
5. Och-Ziff Capital Management	33.2
6. D.E.Shaw Group	32.2
7. Goldman Sachs Asset Mgmt	29.2
8. Paulson & Co	29
9. Barclays Global Investors	26.2
10. GLG Partners	23.9

Source: Hedge Fund Intelligence, Institutional Investor

It is pretty clear that the world concentration levels are on the increase. For instance, “the number of TNCs has increased enormously between the end of the 1960s and the end of the 1990s, the number of TNCs in the 15 most important developed countries had increased from 7,000 to 40,000”, which produces a proportionate growth in FDI (United Nations, 1999) and financial opportunity as well.

Geographical concentration is very clear in some of the world financial markets and not in others. In the US, New York Stock Exchange, Nasdaq (since 1971), in London London Stock Exchange, in Europe Frankfurt NeuerMarkt (since 1997) and in China Beijing Stock Exchange are the major financial centres but the United States has the greatest financial power because institutional US investors’ assets are six times their European counterparts and index fund managers from the US lead the international equities (Morrison, 2002: 317). For instance Calpers alone, in 2002, had \$24.3 billion foreign equities (Morrison, 2002: 317).

Moreover, criminologists Cohen and Felson (1979) argue that in megacities where many people live in a smaller area, dense centres increase crime rates because this kind of life-style increases the financial opportunity space per unit area. Since World War II, the finance world has had its own financial mechanism, distinct from the

earlier times, and one of the features of this new financial era is the parts of the cities that are named 'financial districts' such as the City of London in London and Wall Street in Manhattan Island of New York City, Hong Kong in China. It is common in the modern world that specific districts of one city in every country have the financial concentration. Some academicians like to call it 'glocalization'.

Banks, insurance companies, stock markets and other financial centres usually reside very close to each other and form a dense financial district which in turn may help increase the financial crime rates. Actually, industrial organizations theory suggests that they should have been residing dispersedly but they are not. Thus there must be professional reasons for that and those reasons may well include some financial opportunities.

Cohen and Felson's (1979) theories seem to be valid on financial assets of world markets as well. The 1999 Financial Modernization Act is a good example. After this act in the USA, banks and insurance companies have been basically united because this Act allowed banks to offer insurance services, which was possible in Europe many years before. Increased concentration of financial transactions, assets and institutions, then, increases financial crimes and this should be properly addressed in our study.

At the international level, off-shore centres are very active compared to other places and this specialization creates different levels of opportunity spaces.

Agents of the market finance are far greater than their competitors, as presented in Tables 7.46, 7.47 and 7.48. Table 7.46 for instance shows that the biggest conglomerates of the world are from the market financial system. Similarly, Table 7.43 lists the big cities of the market financial system in terms of the GDP, not of population, revealing the concentration of assets. Looking at the figures it is easy to grasp that in a market system the ordinal place of the population is always higher than the ordinal place of the GDPs, unlike socialism which is the opposite.

Table 7.46: The World's Top Five TNCs by Foreign Assets, 1997

Rank by foreign assets	Corporation	Country	Industry
1	General Electric	United States	Electronics
2	Ford Motor Company	United States	Automotive
3	Royal Dutch/Shell Group	Netherland/ United Kingdom	Petroleum
4	General Motors	United States	Automotive
5	Exxon Corporation	United States	Petroleum

Source: United Nations, World Investment Report 1999 (Geneva: United Nations), p.78 (in Morrison, 2002: 37).

Table 7.47: Global Cities Index, 2010

Rank	City	Rank by Population	Rank by GDP
1	New York	6	2
2	London	28	5
5	Hong Kong	31	14
6	Chicago	25	4
7	Los Angeles	12	3
8	Singapore	38	23
13	Washington	42	10
15	Beijing	13	33
19	Boston	41	11
20	Shanghai	7	21
25	Moscow	19	13
27	Dubai	56	49
33	Miami	58	54
38	Houston	40	17
40	Atlanta	39	15
41	Istanbul	21	30
43	Cairo	17	36
44	Dublin	62	55
48	Kuala Lumpur	57	65
62	Shenzhen	26	28
65	Chongqing	23	57

Source: Foreign Policy (2010)

According to Morrison (2002: 51), globalization “has favoured some cities and regions, but not others”. Indeed it is a pervasive habit of the finance community to use

the phrase ‘financial *centre*’¹⁷⁵ although similar phrases like ‘economic centre’, ‘industrial centre’, are either not popular or do not even exist. In addition to “traditional” (Morrison, 2002: 317) exchanges like the New York and London Stock Exchanges, newer, famous exchanges like Nasdaq¹⁷⁶ (National Association of Securities Dealers *Automated* Quotation System), reside in traditional centres too.

In addition to the real assets, many of the most widely used indices of stock prices, such as the Dow Jones Industrial Average, the Nasdaq Composite in New York and the FTSE 100 in London are also located in these centres.

Both the acquirer and the acquired conglomerates are also from market economies as seen in Table 7.48. This is a clear indication of concentration.

Table 7.48: Global Acquisitions, 2000

Target	Acquirer	Value(\$billion)	Sector
Mannesmann (Germany)	Vodafone AirTouch (UK)	198.9	Telecoms
Time Warner (US)	AOL (US)	181.9	Internet/ media
Sprint (US)	MCI Worldcom(US)	127.3	Telecoms
Warner- Lambert (US)	Pfizer (US)	87.9	Pharmaceuticals
Mobil(US)	Exxon (US)	86.4	Oil
SmithKline Beecham(UK)	GlaxoWelicome (UK)	78.4	Pharmaceuticals
Citicorp (US)	Travelers (US)	72.6	Banking/ financial services

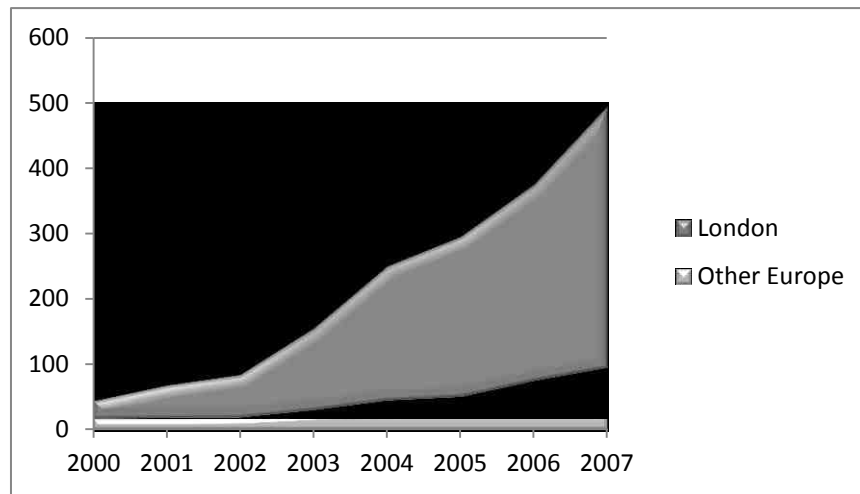
Source: Financial Times, 5/6 February and 30 June 2000, in Morrison 2002: 333.

60 % of all the hedge funds in the USA is located in New York and the rest is located in only a few states, namely, Connecticut, Illinois and Florida (Terzi, 2009). London is the second biggest global centre of hedge funds and in the five years between 2002 and 2007, the size of the hedge funds in London doubled. Graph 7.3 clearly shows that London is the centre of hedge funds in Europe.

¹⁷⁵ E.g. Morrison, 2002: 317.

¹⁷⁶ Focuses on technology and ‘new economy’ stocks and is located in New York since its foundation in 1971.

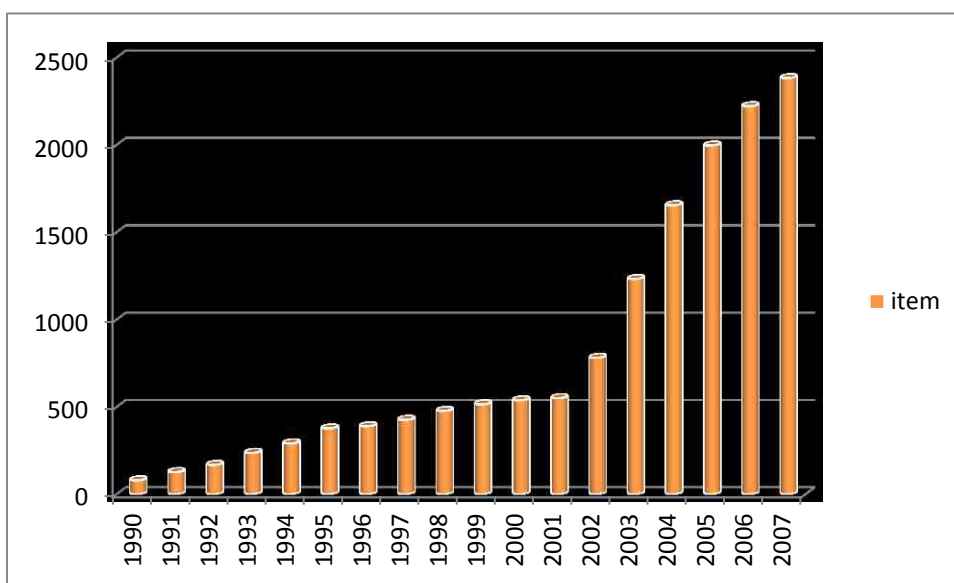
Graph 7.3: London's Share in European Hedge Fund Market, between 2000-2007 (Billion Dollars)



Source: IFSL Forecasts, 2008

Apart from this geographical concentration, institutions are concentrating as well. Funds of hedge funds can be regarded as an example of this concentration. As Graph 7.4 shows, especially since 2002 funds of funds in the hedge fund market are increasing very fast.

Graph 7.4: Number of Funds of Funds in Hedge Funds Market since 1990



Source: Hedge Fund Research Inc.

To compare the socialist, Islamic and market opportunity spaces, we may also compare the commodity markets, as the commodity markets are the base markets of the financial world this comparison is necessary.

In 1999, in Hong Kong only one commodity market, Hong Kong Commodity Exchange, was in operation on cotton and sugar and in 1999, in Malaysia, there were only two commodity markets, namely, Malaysian Rubber Exchange (rubber) and Straits Tin Market, Penang (tin)

In the market system on the other hand, in 1999, there were many commodity markets. For instance in Italy, there were four commodity markets: BorsaMerci di Bologna (agricultural produce, flour, cereals), BorsaMerci di Firenze (cereals, fertilizers, flour, vegetable oil, wheat, wine), BorsaMerci di Padova (alcohol, live, cattle, chickens, eggs, fertilizers, fruit, grain, olive oil, timber), BorsaMerci di Parma (cereals, ham, eggs, flour, pork, potatoes, chickens, tomato, concentrate). In the same year, the USA hosted the biggest proportion of the commodity markets in the world such as the Board of Trade of Kansas City Commodity Exchange, New York, New York Cocoa Exchange *etc.*

LTCM for instance controlled 100 billion dollars of global assets directly and more than a trillion dollars indirectly. Sen. Jon Corzine, Co-Chairman of Goldman Sachs states that between 1994-1999 (Cran *et al.*, 2002, emphasis added):

The nineties saw a huge build up in concentrations that we had *never seen on a global scale*. Maybe we had way back in history. Romans had financial institutions that were disproportionately large to the overall activity of the world they operated in but LTCM was a specific type of hedge fund. They were involved whether it was the Singapore exchange, Tokyo stock exchange, the London Stock exchange, New York... There was no market that they weren't in. Maybe the largest player across the largest players.

Although naming the last three decades as 'liberalization', 'globalization', and 'financialization' eras respectively, this categorization does not mean that the characteristics of the earlier decades have vanished or the later stages do not have their roots in the earlier ones. On the contrary, "[w]hile M&A activity has a long history within national economies, in 1999, cross-border mergers had grown in number, to half of all reported mergers in the US, the EU and Asia" (Paul, 2002: 333).

"What is even more striking, though, is the increase in the average deal value" of

M&A activities, which rose from \$29 million in 1990 to \$157 million in 1999 (OECD, 2000). It is hard to believe that this five times increase stems from the value change in nine years. Financialization and wealth creation by financial products seems to be a more rational reason behind it.

Consequently, we may confidently argue that the frequency of financial crimes is breaking the world record every new year. Karaşin (2009: 10), for instance, argues that speculation, “corruption, fraud and manipulation in the financial markets has never been greater than in the tighter financial markets of 2009”.

It may be rather interesting to discuss the ‘place’ of opportunity space; however, in the era of globalization and enmeshed international business, it is rather difficult to determine which system resides where. Involvement of foreign direct investment (FDIs) in the international business world is a good example of this *dynamic* place of opportunity spaces, generally shaped by transnational corporations (TNCs) who controlled in 2002 “a third of world output and about two thirds of world trade” (Morrison, 2002: 35).

FDI is a way of investing in foreign firms. This is mainly done in three ways: (i) short-term, investment only, share (equity) purchase of usually under 10%; (ii) long-term, *direct role in the management of the company* by purchasing more than 30% of it or (iii) “contractual, non-equity agreements” (Morrison, 2002: 33).

Morrison (2002: 34) also argues that “[t]he growth in FDI has had a pervasive impact on international business. No longer could it be said that a company, its factories and the products it manufactures are necessarily the products of its home nation” (Morrison, 2002: 34). This is even more correct for financial activities of TNCs because it is becoming harder to determine whether or not a financial crime committed in one specific country really belongs to that country. Reich (1991) agrees that the notion of national origin of many complex products, hence, does not have any real meaning.

As Table 7.49 depicts, the biggest fund managers operate in the market financial system and it is forecast by IFSL that in 2007, 40% of all the hedge funds globally will be managed by New York (Terzi, 2009) as seen in Table 7.50.

Table 7.49: The Biggest Fund Managers in 2008

	Billions Dollars
Citico Fund Services	482
Citi	228
HSBC Securities Services	217
Goldman Sachs Administration Services	212
The Bank of New York Mellon	150
CACEIS Investor Services	137
SS&C Fund Services	115
UBS Global Asset Management Fund Services	83
GlobeOp Financial Services	78
PFPC Alternative Investments Group	72

Source: Hedge Fund Administrators Survey (2008).

Table 7.50: Locations of Hedge Funds between 2002 and 2007 in Billion Dollars

	USA	Europe	Asia	Others
2002	81,6	12,3	4,9	1,2
2003	76,8	16,1	5,5	1,5
2004	72,1	20,6	5,5	1,8
2005	66,6	22,7	7,8	2,8
2006	66,0	24,0	7,0	3,0
2007	66	24	7	3

Source: IFSL Estimations, 2008

It is, therefore, not a surprise that the agents and assets are concentrated in the market financial system and this concentration is bigger in magnitude even in a theoretical sphere because socialist financial systems, at least until now, do not attempt to operate in international markets such as TNCs, MNCs, maybe because central planning is not possible for the whole world market or had not seemed possible before the digital age.

This is indeed surprising because in the internal markets, the Socialist financial system concentrates all the agents and the assets of the whole system in the capital of the country and rules them from the centre; nevertheless there are almost two hundred additional, national, financial world markets for the capitalist/market agents to operate in and they top the list despite the heavy concentration policies of socialism in

internal markets. One may argue that Chinese financial agents are in the world markets with this strategy but this strategy is not theorized as part of the socialist literature yet and it cannot be generalized to the past decades of the socialist history because it is recent and not followed by other Socialist players in world markets. These arguments determine the predicted orders as depicted in Table 7.51:

Table 7.51: Comparison of the Concentration of Agents as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Nevertheless, these results are valid for the scope of the international financial environment. When we look at the national environments, we observe that Islamic financial markets are more concentrated than socialist and market financial systems. We may consider both Tables 7.52 and 7.53 to reach a conclusion about the comparative position of the Islamic financial system in terms of the ease of price-fixing and manipulation.

Table 7.52: Shariah Compliant Assets across the World in 2008

Country	\$US million, 2008	Annual change, %
Iran	235,335	27.5
Saudi Arabia	92,018	26.1
Malaysia	67,074	32.3
Kuwait	63,138	44.3
UAE	49,083	35.9
Bahrain	37,405	42.8
Qatar	21,022	77.5
United Kingdom	18,094	60.7
Turkey	15,783	65.5
Pakistan	6,315	30.0

Source: The Banker (October, 2008)

Table 7.53: Top Ten Islamic Banks Across the World in 2008

Bank	Assets, \$ million	Profits, \$ million
Bank Melli	48,470	542.1
Al Rajhi Bank*	43,981	1,739.7
Kuwait Finance House	38,224	633.1
Bank Saderat	32,610	228.0
Bank Mellat	32,534	162.2
Bank Tejarat	26,340	0.2
Bank Sepah	24,142	28.8
Dubai Islamic Bank	22,802	512.3
Bank Keshavarzi	16,298	0.3
HSBC Amanah	15,194	n/a

Source: Wilson (2009) - (*The Banker*, London, October 2008 & Annual Reports, December 2008)

Looking at the numbers, we can calculate that the total amount of *Shari'ah* compliant assets across the world is \$605,267 million and the total amounts of assets of the ten biggest banks are \$300,595 million in 2008. Thus, $605,267 / 300,595 = 2.01$, which means, half of the world's total, global Islamic financial assets are held by only 10 big banks. It is not possible to reach such figures for either the market system nor the socialist system. Therefore, in practice, Islamic finance is more vulnerable to varieties of price-fixing and manipulation and more vulnerable to financial crimes on this criterion.

Nevertheless, this fact does not change our initial results for this criterion, because many banks of the market finance system have Islamic windows and they have more power and thus concentration in all of the world's financial markets.

7.2.2.1.8. Complexity

In the last decade, the financial world has been an over-quantified, digitalized world, which is completely understandable only by the world's best mathematicians and computer experts. It is unnecessary to attempt to determine the high frequency of the developments in communications, transportation and technology and many of those developments have parallel developments in the finance world. SuperDOT, LTCM, Forex, tropical derivatives, high frequency finance are only a few of them.

“The global financial crisis ... was due ... to the new financial complexity offering up the opportunity for widespread, systemic fraud” (Hutton, 2010). In recent decades, finance has been so complicated that even accountants are having a hard time coming up with a number for the earnings of companies (Shiller, 2008).

Tax policies are among the most complicated issues in finance. For instance, Shiller (2008) argues that even the Nobel Prize winning finance theories such as those of Franco Modigliani and Miller’s irrelevance of dividend policies for the shareholders, do not hold for tax policies and this exception of the tax policies is valid in all the areas of finance because financial taxation is a very complicated issue.

One of the complexities of today’s finance is the ‘risk sharing’ problem which means that managers and shareholders have different risk-taking attitudes (Shankman, 1999), and since shareholders are so many and include institutional investors as well, a specific literature has built up on the voting rights of the shareholders which complicate financial decision-making even more. “As Michael Lewis describes in *The Big Short*, credit default swaps had been deliberately created as an asset class by the big investment banks to allow hedge funds to speculate against collateralised debt obligations. The banks were gaming the regulators and investors alike” (Hutton, 2010).

Shiller (2008) thinks that “it is amazing how things can suddenly grow and nobody understands them. So, there is vulnerability”. About credit default swaps, Shiller (2008) says:

I’ve just got the latest number of how much credit default swaps there are outstanding. According to the Bank for International Settlements, there are now 52 trillion dollar worth of credit default swaps outstanding. Fifty two trillion dollars... but the GDP of the United States is only 14 trillion. So, how can there be 52 trillion dollars of CDS? And this thing has only come in last ten years or so. So, I called an economist at BIS and asked ‘Can you please explain it to me where is this 52 trillion coming from?’. I have got a note from him: ‘Still trying to figure it out’. But that is what happens. The system performs very well and then it becomes vulnerable. Nobody understands all of it.

As mentioned by The Guardian (2010), “London and New York had become the centre of an international financial system in which the purpose of banking became making money from money – and where the complexity of the ‘innovations’ allowed extensive fraud and deception”.

Nevertheless in market economies, white-collar criminals do not deal with more complex structures compared to the Socialist system because a white-collar person in socialism, who is usually a member of the communist party and occupies a ruling position related to finance, rules the whole financial system with all its details. For instance in a country with a population of more than one billion, the members of the Communist Party appointed to finance positions have to find a way to plan the production of the raw materials (*e.g.* corn) first and then plan its distribution to first level mid-processors (*e.g.* the mill) and then the second level mid-processor (*e.g.* to produce smooth paper using cornstarch) and distribute it to another mid-processor (*e.g.* to produce books) and distribute it to the last resort, the buyer. In order to do that the central planning office must be informed that the book publishers need cornstarch and that the CPU manufacturers need silicon *etc.* and when the needs change the office has to get information about the new production processes too. Even just the planning of the production is very cumbersome, but forcing the supply to meet the demand and covering all the processes with enough supply and transaction of financial assets, credits and standard allowances of private property is too complex to imagine. All of these processes are left to the market mechanisms in the market financial system and in the Islamic financial system.

Among all four financial systems, Islamic finance is the simplest financial system because it does not have the principle of central planning and it bans interest, which is a fundamental ingredient in the modern market economy and calculated in almost all transactions. Besides, debit/credit is discouraged and some of the timing and place of the transaction of the goods and corresponding prices are banned in Islam, which are arguably the second and third most important ingredients in modern market financial system. Exclusion of these complexities from the Islamic financial system puts it to the bottom of the order. Consequently, the ranking is as provided in Table 7.54.

Table 7.54: Comparison of Complexity as an Immediate Financial Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Market/Capitalist Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

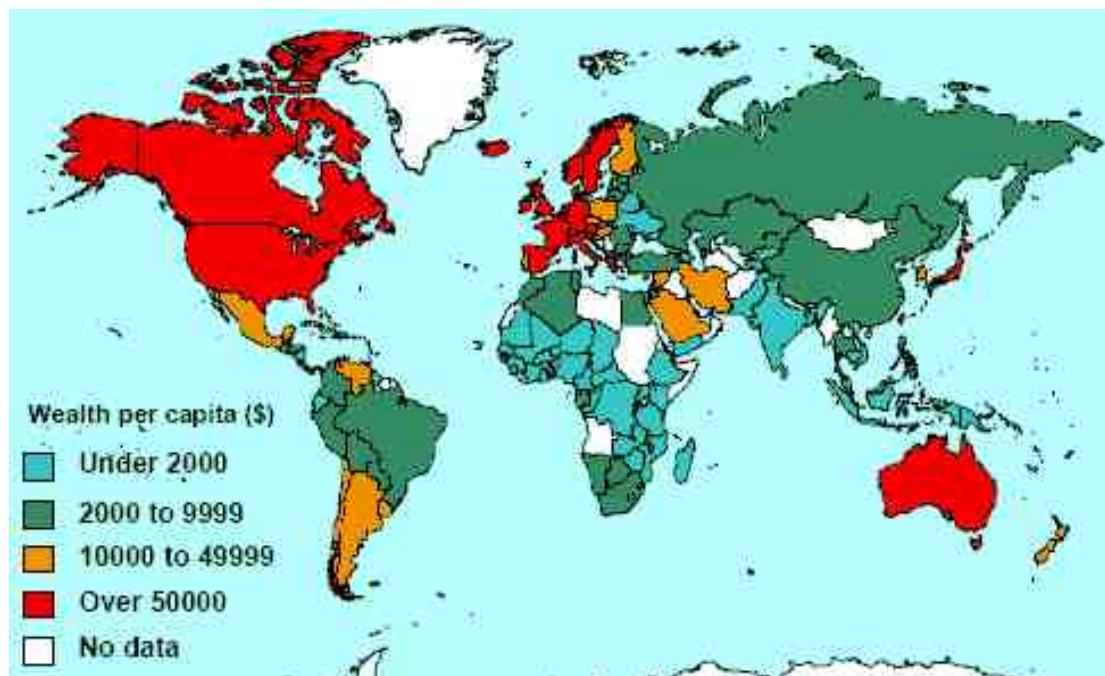
We need to note in bold that this order is correct from the point of view of a white-collar criminal only and not from the viewpoint of the public, because in Socialist countries everything is very simple for the public: whatever is ordered by the government must be followed. In this case the market economy tops the list but we study white-collar crime in this research.

It may be argued that the partially-Islamised financial systems bear more complexity compared to the market system and it is a reasonable argument but there is no transaction (to the best knowledge of the author) that is banned by the market system but allowed by Islamic finance. This is why the argument does not hold.

7.2.2.1.9. Volume of financial assets

Map 7.10 depicts the world distribution of household wealth in the year 2000 and shows the volumes of the financial assets distributed over all four financial systems we compare.

Map 7.10: The World Distribution of Household Wealth in 2000



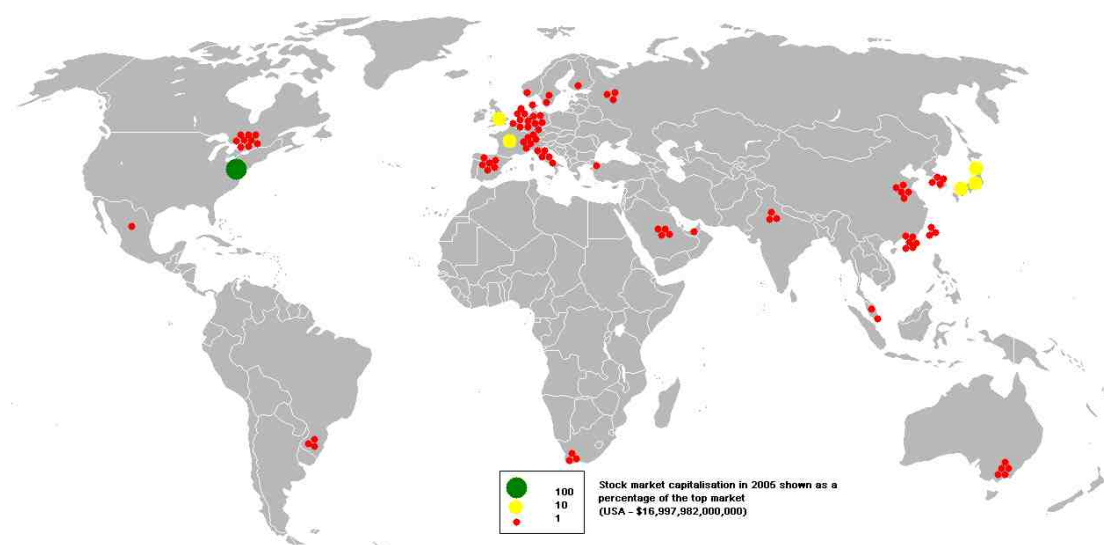
Source: <http://www.mindfully.org/WTO/2006/Household-Wealth-Gap5dec06.htm>

In a confirming manner, Wahlström and Peterson (2006: 363) argue that groups' and governments' financial opportunity spaces are expanding in Europe, because access to

greater world financial markets is increasing.

Map 7.11 shows the stock market capitalization across the world as a percentage of the top (US in green with \$ 16, 997, 982, 000, 000) market (yellow dots denote 10% and red dots denote 1%) which can be used as a measure of financialization of the financial markets in relevant countries and economic systems.

Map 7.11: Stock Market Capitalization of World Markets in 2005 (shown as the percentages of the top market, US)



Source: World Bank (2007)

It should be noted that fully Islamized countries such as Sudan and Iran are not represented in this map while market societies, predictably, are over represented. Financialization of the economy is relatively high in market economies and less in socialist economies and moderate in Islamic economies.

Socialism is second because of China's role in recent decades as seen from Map 7.11. Morrison (2002: 51) counts China as the first among "[t]he five most popular host countries in the developing world for FDI investment" followed by Brazil, Mexico, Singapore and Indonesia. We may take this fact to clarify the ownership of the volume and ownership of opportunity and conclude that China is hosting financial assets of other big investors and although the geographical location of the transactions and probable offenses takes place in China most of them indeed are not owned by China and other East Asian countries. In addition, United Nations (1999) warns us

that these five countries had 55% of all FDI flows to developing countries in 1998.

Table 7.55 shows the last order of financial systems' vulnerability against FWCC in terms of 'volume of financial assets'. This concludes the vulnerability comparison of immediate opportunity spaces for FWCC. The order reached in this table is combined with the earlier tables to reach Table 7.56. Table 7.57 repeats the same results for further comparison to reach the final ordinal places of the compared cases.

Table 7.55: Comparison of Volume of Financial Assets of Financial Systems as Immediate Opportunity Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

In sum, the total impact of all the criteria that positively affect the opportunity space for committing white-collar financial crime produces a picture as seen in Tables 7.56 and 7.57:

Table 7.56: Comparison of the TOTAL EFFECT of Immediate Financial Opportunity Spaces

Their Order	Financial Systems
1+1+1+1+2+1+1+2+1 = 11 (most vulnerable)	Market/Capitalist Financial System
2+2+3+3+1+4+2+1+2 = 20	Socialist/Transitional Financial System
3+3+2+2+3+2+3+3+3 = 24	Partially Islamized/Moral Financial Systems
4+4+4+3+4+3+4+4+4 = 34 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.57: Comparison of the TOTAL EFFECT of Immediate Financial Opportunity Spaces (for Further Analysis)

Their Order	Financial Systems
11 / 9 = 1.2 → 1 (most vulnerable)	Market/Capitalist Financial System
20 / 9 = 2.2 → 2	Socialist/Transitional Financial System
24 / 9 = 2.6 → 3	Partially Islamized/Moral Financial Systems
34 / 9 = 3.7 → 4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Consequently, from the point of view *solely* of *immediate positive* motivational effects, our analyses conclude that the market financial system is the most vulnerable financial system among the cases we compared and the fully Islamized financial system is the least vulnerable one to FWCC.

However, these are all *immediate* opportunity spaces that *positively* affect financial crime propensity. In order to get a true picture of the effects of *immediate* financial opportunity space and other opportunity spaces, we need to take into account the ‘*negatively effecting*’ *immediate* opportunity spaces as well, that is, negative in the sense that they alleviate the effects of the environmental factors of probable financial crimes.

Comparison of the sum of the negative and positive forces (both environmental and motivational) would be enough to categorise financial systems according to their vulnerability to financial white-collar crimes.

Let us now analyse the opportunity spaces with immediate negative effects on opportunity spaces.

7.2.2.2. Immediate financial defensive space of financial crime

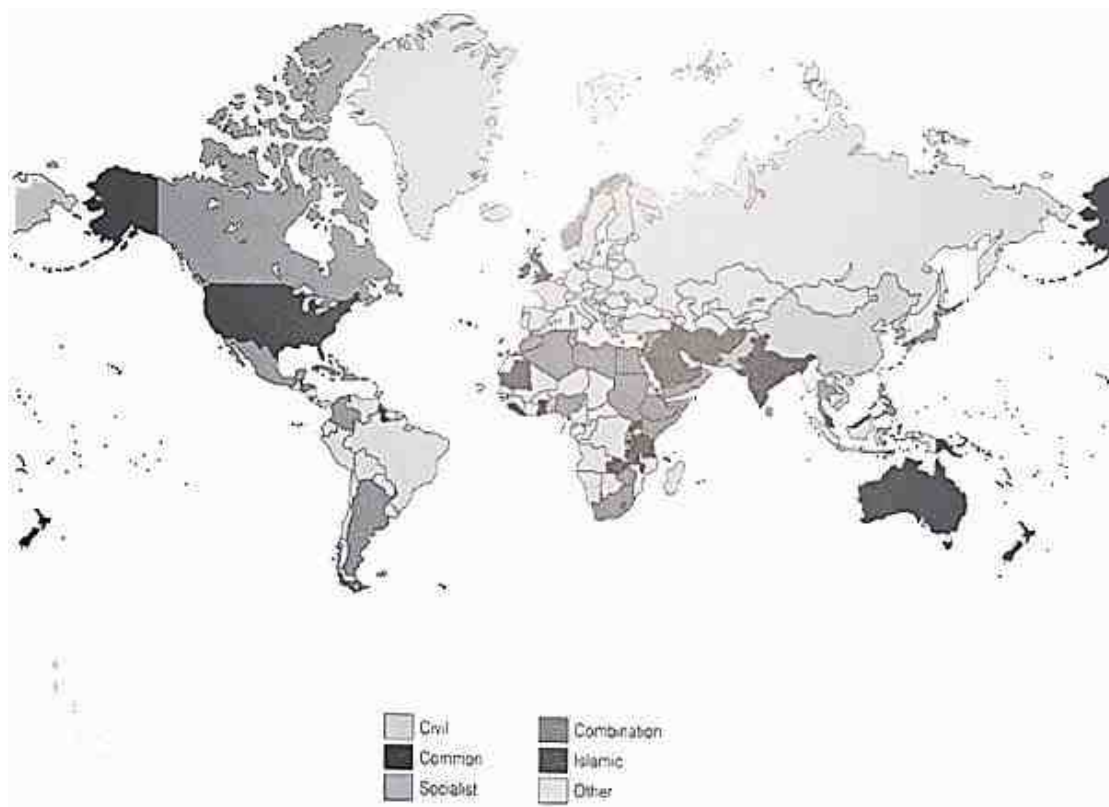
7.2.2.2.1. Legal and justice systems

Legal and justice systems are one of the primary elements of immediate financial defensive systems. Rationality is a big concern for all finance people, and everything about punishment is calculated by them before attempting to commit crimes that are related to pecuniary benefits. Nevertheless, specifically for white-collar criminals, sometimes the benefits are so big that even decades long imprisonment does not deter them.

“Historically, the legal environment has been determined by national legal systems stemming from state sovereignty” but “[i]ntegration in capital markets has not been matched by integrated regulatory frameworks” (Morrison, 2002: 215, 317). New players in the market have a say in the enactment process and thus the form of the resultant legal system in which they operate. Complexity is an important factor in this trend.

According to Reichel (1999: 109), in terms of values, characteristics and attitudes, “legal traditions can be classified into the four categories of common, civil, socialist and Islamic”, but realizing that there are many commonalities and convergences between the first two and their geographical and historical neighbourhood, we may refer to common and civil law as Western Law; such categorization also suits our comparative approach to financial systems. Unfortunately, there are not many extensive comparative analyses of legal traditions (see for instance, Ehrmann, 1976; Ingraham, 1987), but we utilize the existing literature. In general, one may argue that there are mainly three kinds of law: (i) legislations (statute law) as in civil and socialist law countries; (ii) case law (judge-made-law) as in common law countries, and (iii) divine law as in Islamic countries. The geographical distribution of these laws are depicted in Map 7.12.

Map 7.12: Distribution of the World’s Legal Traditions

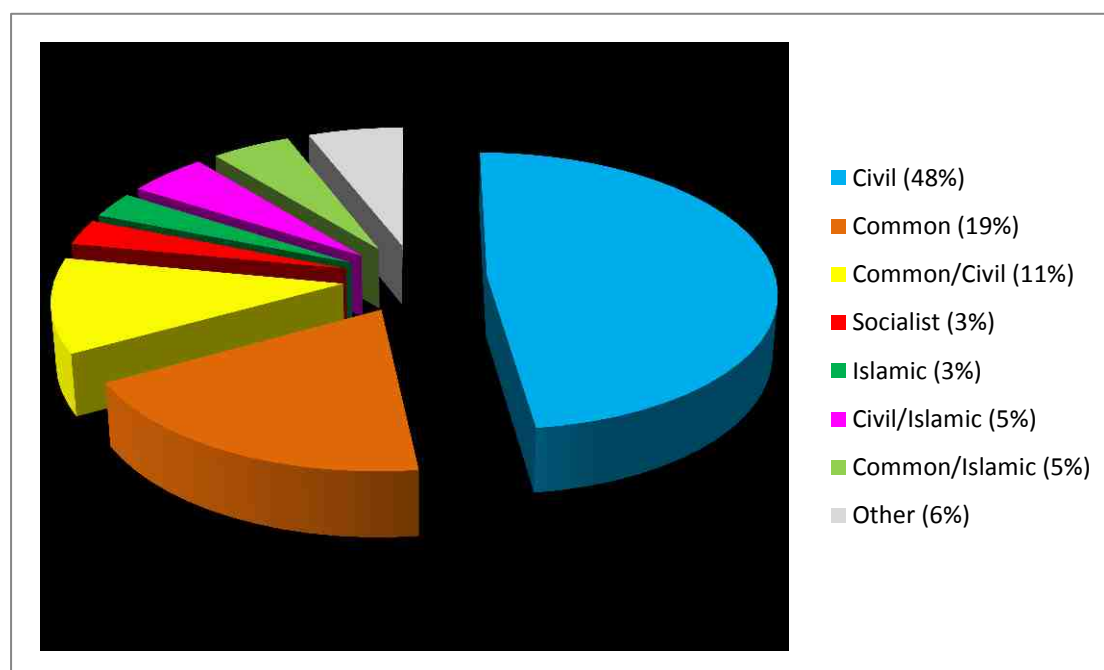


Source: <http://www.odci.gov>

As Reichel (1999) does, we prefer using ‘legal tradition’ instead of ‘legal system’ because none of the systems we compare are standalone and free from the effects of others, but the stronger effect of civil law over others can be observed in Graph 7.5.

Legal systems are mixed with one another because “the groundwork for modern legal systems in much of the world was the legacy of colonial regimes” and “[I]legal traditions in many countries, which are based on customary law, predate Western systems and continue to form an important part of the overall legal environment” (Morrison, 2002: 222). In a way, socialist law is an inheritance of Soviet Socialist Republics, while civil law is an inheritance of the Roman Empire, common law of the traditions of England and Islamic law of the religion of Islam.

Graph 7.5: Countries by Type of Legal Traditions



Source: The World Fact Book (<http://www.odci.gov>) and Library of Congress Country Studies (<http://lcweb2.loc.gov/frd/cs/cshome.html>)

Table 7.58 depicts the countries along with their corresponding legal traditions which can be used to show the corresponding legal traditions of the financial systems we compare. Since Table 7.58 makes no distinction for socialist or Islamic legal traditions, despite the fact that Morrison (2002) is aware of them and does emphasize their distinction in the same source, it may point out the continuing effects of

colonialism on these countries. Morrison (2002: 222; emphasis added) also says that “[i]n many countries, therefore, we now find a *mixture* of pre-modern customs, colonial forms and newer codes designed to keep up to date with business needs”.

Table 7.58: Some Countries and Their Legal Traditions

Civil (Roman) Law	Common Law
China	Australia
France	Canada
Germany	India
Indonesia	Malaysia
Iran	Singapore
Italy	England
Sweden	United States

Source: Morrison (2002: 220)

There are mainly two categories of law, private¹⁷⁷ and public law. Private law regulates the relations between individuals (including companies) and public law regulates the relations between individuals and the state as the representative of the public. Table 7.59 gives the main differences between the public and private law, which does not hold for Islamic law.

Table 7.59: Differences between Public (Criminal) and Private (Civil) Law

	Criminal Law	Civil (Private) Law
Concerns	Offences against society	Disputes between private individuals or companies
Purpose of the action	To preserve order in the community by punishing offenders and deterring others	To remedy the wrong which has been suffered
The parties	A prosecutor prosecutes a defendant	A plaintiff sues a defendant
Where the action is heard	The criminal court, that is magistrates’ court or Crown Court	The civil courts, that is, county court or High Court
Standard of proof	The prosecutor must prove his case beyond a reasonable doubt	The plaintiff must establish his case on the balance of probabilities
Decision	A defendant may be convicted	A defendant may be found

¹⁷⁷ Sometimes referred to as civil law too.

	if he is found guilty, or acquitted if he is found not guilty	liable or not liable
Sanctions	Imprisonment, fine, probation, community service	Damages, injunction, specific performance
Examples	Murder, theft, drunken driving, health and safety violations	Contract, tort, property law

Source: Adapted from Keenan and Riches (1998: 5) in Morrison (2002).

In recent decades the law is more vulnerable and weaker compared to earlier times in history because “[t]he speed of some developments such as e-commerce has far outpaced the development of the law to cover them. While governments have slowly woken up to the legal implications of advances in technology, they have also realized their own limitations in regulating international transactions” (Morrison, 2002: 215).

Apart from the technological innovations, the legal system has to deal with other kinds of innovations such as financial innovations. Merger regulations can be a representative example. “Indeed, national rules have become more complex and the list of countries with merger regulations is growing. Merger notification regimes are in place in 57 jurisdictions and, of these, between 1994 and 2000, 35 have enacted new or substantially revised rules” (Morrison, 2002: 335).

Reichel (1999) argues that Islamic law does not consider the ‘state’ as a separate and legal personality; he explains that Islamic law is private law and every wrongdoer, even the state’s rulers, are judged by the private law. Therefore, Islam applies the same law to the corporations as well but unlike other legal systems Islam does not recognize corporations as legal personalities and instead of punishing their legal personality punishes the individuals who are responsible from breaking the law. After all, it is not reasonable to conceive that the law would ban legal personality to the state but grant it to businesses.

Nevertheless, even if we follow the currently discussed rights of the corporations as legal personalities we need to appreciate the difference between Islamic law and the legal systems of market societies who have granted this right for many centuries.

Table 7.60 shows the main differences between the legal traditions for both

substantial and procedural law.

Table 7.60: Differences between Legal Traditions

	Civil Law Tradition	Common Law Tradition	Socialist Legal Tradition	Islamic Legal Tradition
General				
Role of Case law	Guidance, but not binding	System of binding precedent	Guidance, but not binding	Guidance, but not binding
Legal Style	Systematized application of principles	Pragmatic and piecemeal	Systematized application of principles	Systematized application of divine rules
Cultural Differences				
Do Legal Rights and Obligations Lie with the Individual (Private Law) or the State (Public Law)?	Public law when concern is with the state's legal personality; private law when concern is with the individual's legal personality.	Public law, with both the individual and the state having a legal personality.	Public law, because the state has an interest in all transactions.	Private law, because the concern always centers on the individual's legal personality.
What is the position of the judiciary in relation to other government branches?	Courts have equal but separate power.	Courts share in balancing power.	Courts are subordinate to the legislature	Courts and other government branches are subordinate to the Shari'a
Substantive Component				
The primary source of law is	Written code (provided by rulers of legislators)	Custom	Principles of the socialist revolution	Divine revelation
Procedural Component				
How is flexibility provided	Judge-made law Particularization	Variation in reasoning and definition Identification of issues as either questions of law or of fact	Principle of analogy Directives from higher level courts	<i>Mazalim</i> courts The process of <i>ijtihad</i>

Source: Reichel (1999: 111); Morrison (2002: 222, 115, 118)

It is hard to say that there exists a significant difference between the vulnerability levels of the legal and financial systems in theory, but in practice the literature recognizes that the Western legal traditions behave unnecessarily leniently to the financial agents because of the recent policies of the governments since the Thatcher and Reagan era. For instance Rodger and McCulloch (2001) take this view of the competition crime regulation of the UK. Competition related operations' and institutions' control are weak in the US and Europe as well. A publication as an extension of our comparative analysis is presented as an appendix to this text and it can be referred to in order to appreciate the level of leniency in the Roman and Common legal traditions towards financial agents in recent decades. These policies produce vulnerability to financial crimes in terms of the criterion of the legal and justice systems' relative strengths. Burke (2006: 44) agrees that preventive strategies "would involve reform of the law and its administration in order to alter the equation and make crime appear less attractive".

Newburn (2007: 375) defines occupational crime as "*crime committed within businesses*". Indeed organizations are not capable of committing crimes, but people in it do. Legally granted identity of corporations before judges produces a culprit with no body to suffer. This is basically the most vulnerable part of the defensive space of the market finance and is not possible to experience in socialist and Islamic financial systems. It is really hard for jurisprudence to find a 'real', complete, distinct, standalone personality to convict in a corporate identity, as organizations do not have senses, nor consciousness or intellect, but the people in it have those qualities which are required to commit crime.

As suggested by Geis and Meier (1977), a definition of white collar crimes is the first point to mention. To them, it is "very difficult" because conventional methods of criminology are not adequate for WCCs. For instance, "[p]sychopathy and/or inability to defer gratification do not provide much insight into antitrust violations" (Geis and Meier, 1977: 3).

Difficulty of Enforcement

Apart from the *definitional* and *etiological* difficulties, there is an agreement on the difficulty of *dealing with* white collar crimes as well because "corporations often

plead *nolo contendere*¹⁷⁸ to criminal charges which are brought, a luxury not generally made available to robbers and burglars ... Such pleas stifle opportunities to accumulate trial information, always a rich source of data” (Geis and Meier, 1977: 3). Furthermore, most white-collar crimes are not defined in the conventional codes but are “hidden in civil and administrative laws and involve rather complex matters of legal protocol” (Geis and Meier, 1977: 3).

Mayer (1990: 298) indicates the first of them; the internal and external leniency of the professionals, government officials and members of the public against financial criminals:

What makes the S&L outrage so important a piece of American history is not the hundreds of billions of dollars, but the demonstration of how low our standards for professional performance have fallen in law, accounting, appraising, banking and politics—all of them.

Severity, here, then, requires that criminal justice policies and criminal laws should outweigh the possible benefits of crime. Research verifies this assumption. According to Rengert (1989), there is enough scientific evidence showing that lower incarcerating jurisdictions have the highest crime rates but, considering the young age of modern finance and our analysis in the following chapters, we can confidently state that for financial criminals, severe penalty has not existed at all.

The most important and the most effective one of these three measures is the *certainty*. Paternoster (1989) shows that *certainty* is more important than the *severity* of the punishment. *Certainty* requires that promises made by the law and public policies be kept and not postponed, lessened or pardoned, or excused. If would-be-criminals see the consequences of their future offenses by seeing their peers punished, they may decide *not* to commit crime.

Studies of both objective and perceptual deterrence often do find negative correlations between certainties of criminal penalties and the rate or frequency of criminal behaviour, but the correlations tend to be low. Severity of punishment has an even weaker effect on crime. Neither the existence of capital punishment nor the certainty of the death penalty has ever had a significant effect on the rate of homicide... *The empirical validity of deterrence theory is limited.* (Akers 1994: 54; emphasis added)

Many criminologists agree that perceived informal sanctions directed by family

¹⁷⁸ From Latin: ‘I do not wish to contest’. This defense saves legal costs and prevents defendants from receiving the legal title of ‘criminal’ from the court.

members and peers rather than formal ones from government and other formal institutions have the greatest effect (Hollinger and Clark, 1983; Grasmick and Bursik, 1990; Williams and Hawkins, 1989; Paternoster, 1989). This fact should encourage us to take into consideration the social measures of deterrence along with legal ones.

Objective and experimental research shows that the correlation mentioned is observed significantly between crime rates and the *certainty*, *severity* and *celerity* of punishment by Gibbs (1968), Kobrin *et al.* (1972), Title and Rowe (1974;), Ross (1986), Green (1986); and not significantly by Bursik *et al.* (1990), Chiricos and Waldo (1970), Ross and McCleary (1990), Kelling *et al.* (1974). Wu and Liska (1993) found the same effects but now to different degrees between different races (white and black). Walker (1980) on the other hand expands the usefulness, the effectiveness of deterrence to international rational criminals.

Bottomley and Coleman (2002: 62) disagree with these studies and criticise deterrence, because “the chances of being caught in the commission of an offence by a passing police patrol are extremely low in the UK”. Bottomley and Coleman (2002) may be correct in their criticism for street crimes, but in fact the chances are not that low for auditors who visit a company provided that they are serious in conducting an audit, otherwise even millions of deterrence measures would be obsolete. Surprisingly, this was the case for Barings. When asked about internal audit, which was launched when his managers in England learnt that clients were not paying their bills, Leeson suggested that the losses were for the clients. But he told the truth to Adam Curtis (1998):

You have to expect that everything is to be found. This is the nature of the audit. They supposed to test everything and test documents. If he had picked up any document it had five eights account is on in some way or form, any document with the five eights account, so of course I'm worried. They come in and they don't test any record. So I can't be happier, they didn't test any record, one record... I mean.. It's not an audit.

"The high recidivism rate further challenges the efficacy of contemporary deterrence theories" (Nacro, 1997: 42). Indeed, financial criminals repeat their offenses, but this is not a breach of rationality, on the contrary, this is purely rational in a situation of almost no deterrence and enforcement, or in the terminology of RCT, in situations of punishment with no certainty, severity or celerity.

Deterrence theory also hypothesizes that these three measures, *certainty*, *severity* and *celerity*, function together and are affected by each other. For instance, even very severe punishments may not reduce crime rates, if punishments are not certain or postponed for a long-time, or conversely, small amounts of punishment would suffice if it is certain and quick. Therefore, while interpreting the results of the research testing deterrence theory, one should be cautious of suggesting public policies for law enforcement and other related public institutions (Patemoster, 1989). Patemoster (1989) also warns that it is, for instance, very easy to confuse the effects of deterrence (fear of punishment) and incapacitation (cleaning streets of offenders), which is supported by Siegel (1995: 120).

By means of celerity and certainty, criminals should feel the burden of punishment on and around them. Otherwise, as the *homo-economicus* view suggests, they would prefer the closer benefit to a greater future loss (or the reward of ‘the release of future burden’).

This notion is another example of how interconnected two rational choice theories in the different contexts of economics and criminology are and why it makes sense to deploy RCT for financial crimes. Indeed, Burke (2005: 43) argues that earlier forms of RCT in the late 1960s and early 1970s, “tended to compare the decision-making process adopted by offenders with straightforward economic choice”.

Similarly, Gary Becker (1968) in the early RCT literature suggests a trade-off between ‘legitimate opportunities of income and reward’ vs. ‘illegitimate income and rewards’ and claims that people choose between legal and illegal means on the basis of the best return. Burke (2005: 43-44) comments on this equation and says that changing the criminal law or the crime policy is the best way of influencing the equation of the criminal decision making process.

For example, the death penalty is the ultimate punishment; however, neither classical nor post-classical schools support the death penalty; maybe because they reasoned that people live, as if they are going to live eternally. Some are religious and believes that they ‘will’ live eternally and some others like re-incarnationists believe that they ‘will’ live eternally in different forms of life. For a Muslim criminal, severe worldly punishments have relatively more negative consequences compared to other

criminals. For instance, the suffering about a death sentence in this world multiplies because of the belief that a second and eternal death in Hell is waiting. Financial white collar criminals living in both socialist and market societies are either not bound by these punishments or loosely bound¹⁷⁹. The resultant Table 7.61 sums up these analyses

Table 7.61: Comparison of Legal and Justice Systems as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.2.2.2. *Accounting system*

Classical accounting or double-entry book-keeping dates back to the 12th century and “[m]odern book-keeping systems are still based on principles established in the fifteenth century¹⁸⁰” Venice (Dyson, 1997: 4).

Modern finance though is significantly different from classical finance, which lasted until the third quarter of the 20th century. However, accountants still use comparatively very similar ways of keeping records of firms, despite the fact that “[t]he days when a company’s accounts were simply a record of its trading performance” are over (Bradburn, 2001: 117). Better tools could not be produced that are distant from accounting and this forces accounting to do nothing but ‘cook books’ to reflect a presentable look of the firm in an era of very high leverages, fluctuating stock prices, derivative prices, exchange rates, debts, loans, interest rates and inflation calculated every new instant by electronic and automatic accountancy because “the pressure to produce strong results is greater than before” (Bradburn, 2001: 117).

“It is worth noting that most creative accountancy is not illegal” and that

¹⁷⁹ For in some common belief systems in market societies, people’s place in Paradise or Hell is not a consequence of the crimes they commit in this world. Their place is irrelevant to what they do in this world (Kimball and Teaching Company, 2008).

¹⁸⁰The first known book is written by Italian mathematician Pacioli in 1494 (Dyson, 1997: 4).

“accountancy rules in many countries are just too grey. This means the rules are very much open to interpretation” (Bradburn, 2001: 117). Especially in market economies, accounting has been so complex that “senior managers themselves may be largely dependent upon their junior colleagues telling them what is happening” (Dyson, 1997: 5). Besides, in the UK, for instance, “there is nothing to stop anyone calling himself an accountant, and setting up in business offering accountancy service” (Dyson, 1997).

Problems with accounting are not limited to the problems presented above. It would be better if auditors were “appointed by and report[ed] directly to the board rather than management” and if they did not “audit their own work” (Sternberg, 2004: 73). For instance, Enron’s accountant and external auditor was the same corporation, Arthur Andersen, and this moral hazard problem was probably one of the most important factors in one of the biggest frauds in finance history. Sternberg (2004) believes that the role expected from auditors indeed belongs to directors.

In socialism, where the state controls all prices and the supply of money to and from the economy, the use of prices is not really meaningful, because even if the state has less of any goods, the price will be the same but delivery will be less. On the other hand government can also double the wages, but if it does not increase the supply, better wages would be meaningless as well. The same effect occurs when the prices are halved but the supply is the same or both the supply and the prices are doubled. Therefore, it would be difficult to apply classical accountancy “to assess the wealth of a farmer in a non-monetary system” (Dyson, 1997: 5) and compare this wealth with others. The only thing that really matters is the amount of supply and it is not comparable in Socialism, as Dyson (1997) shows in the following Table 7.62.

For instance if the government drops the price of a cow down to one-third of the previous year’s price the socialist farmer may indeed rationally act as if he/she had lost ten cows during the last year despite the fact that he/she raised 5 more because *ceteris paribus*, he/she must give away three cows in order to buy whatever he/she used to buy in exchange for one cow. Therefore, accountancy is valid only for the state in socialism and since we study white-collar criminals this is what counts for our analysis. Indeed this is also why socialist accounting uses labour hours for recording, reporting and comparing instead of the prices. This example is shown in Table 7.62.

According to AAOIFI, the objectives of Islamic accounting are to “determine” and “safeguard” “rights and obligations of interested parties” by ensuring “proper accounting recognition (recording) and valuation of assets to all contractual parties” who would be equity holders, holders of investment accounts, other depositors, current and saving account holders, others who transact business with the Islamic financial institutions, who are not equity or account holders, *zakat* agencies and regulatory agencies (Abdul Rahman, 2010: 15 -16).

Nevertheless, as Abdul Rahman (2010) states, modern Islamic finance followed the first of the two options for the development of financial principles, that is analysing the Western accounting principles and testing their compliance with the Islamic principles. In a way, Islamic principles have been used as a filter mechanism to test the compliance of non-Islamic standards. Sternberg (2010: 72) does not agree that this process helps to guarantee the health of the sieved principles, as passing an *MOT* test does not guarantee that one’s car is safe or valuable, because the process is not designed to suspect and pinpoint the faults in the car, just like auditors with the corporations they audit.

For practical purposes, we do not observe any substantial difference between classical accounting, assurance and auditing standards and Islamic ones, other than the inclusion of *zakah* as an information requirement and exclusion of interest information, which does not specifically concern accounting and related knowledge.

Sudan and many other agents of Islamic finance have adapted “the Shari’ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and use them as their guidelines” (Mohammad *et al.*, 2010: 4), but it is hard to pinpoint a characteristic of these standards that causes a significant difference between the market finance and Islamic finance.

Since in socialism the accountancy is, in effect, controlled by the white-collar managers of finance, and since the number of these people is very much restricted compared to both Islamic and market finance, Socialism can be put at the top of the list, as depicted in Table 7.63.

Table 7.63 puts the arguments mentioned in the order of financial systems’ vulnerabilities to FWCC in terms of ‘accounting systems’.

Table 7.63: Comparison of Accounting Systems as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Partially Islamized/Moral Financial Systems
2	Fully Islamized/Moral Financial Systems
2 (least vulnerable)	Market/Capitalist Financial System

7.2.2.2.3. *Audit*

The most important vulnerability of the modern audit is the fact that auditor and accountancy firms are the same corporations and that they are paid by those to whom they are supposed to be providing warning for their mistakes and wrongdoings. Arthur Anderson is a good example, because it did internal and external auditing and consulting at the same time for Enron and was paid by it.

This is a clear example of the conflict of interest and what is more interesting is the fact that governmental agencies have no objection to these practices. For instance, the US government asked for an assessment of the independence of Arthur Anderson in the Enron case and the assessment was made by Arthur Anderson itself. Moreover, the government accepted the assessment, which basically said that according to Arthur Anderson, Arthur Anderson was independent (Monks *et al.*, 2004). These observations about the market finance are good reasons to describe it as a very loose, even naïve system in terms of audit standards.

Indeed, the system does not appoint accountants to find out mischief in the corporate records. Far from it, there is no party appointed for those kinds of jobs in modern finance. This is why, “[i]t is inappropriate to expect financial auditors to detect most sorts of fraud and operational problems, because that is not their job. As Lord Justice Lopes famously remarked: “An auditor is not bound to be a detective, or as it was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watchdog, but not a bloodhound” (Sternberg, 2004: 71).

Nick Leeson's case confirms the possibility of such practices but Baring managers accuse accountants. Ron Baker, Leeson's manager at the time, the Head of Financial Products Group, Barings Investment Bank, 1993-1995, thinks that (Curtis, 1998, emphasis added):

It is the auditors in the end. Nick would probably have been clever, probably distracted people but at the end of the day there is a job that needs to be done. It seems to me that they began to associate the commercial success of the organization somehow or another with the lack of controls. You run a London Investment Bank with pristine controls which you polish regularly but a global stock broker... It's a very different business. Maybe that was a business in which you let a rock and roll a little bit more than you did with a Merchant Bank because that was the way that business had been successfully run. The people that were *sent in to seats of controls were seduced by the commercial success of the organization and lost their way*".

On the other hand, accountancy, as a job, has some moral hazard problems as well. As Dyson (1997: 11) states,

Even external auditors have limited independence. This is because the directors of a company usually recommend the appointment of a particular firm of auditors to the shareholders. It is rare for shareholders to object to the directors' recommendations so if the directors are in dispute with the auditors, they can always hint that they are thinking of appointing another firm. The auditors can always appeal directly to the shareholders, but they are not usually successful.

And indeed there is not really much possibility of success, because in market societies owners are many and dispersed across the globe, while the managers are few and densely located.

Sternberg's (2004: 71) explanations are plausible in this discussion so as to have some analysis why the practices are as they are:

Believing that auditors should have been able to detect signs of the impending disasters, commentators called for better corporate governance as a remedy. But although there is undoubtedly cause for concern when major corporations and vast sums of money disappear, auditors play at most a peripheral role in corporate governance.

"As interpreted by regulators' and auditors' professional associations, the auditor's responsibility is largely formal, and is satisfied by pronouncing on the technical ways in which financial accounts are drawn up" (Sternberg, 2004: 73). Because of such inabilities and the "extremely limited role" of auditors, Sternberg (2004: 73) supports "government audit". However, in *laissez faire* capitalism, governments prefer to stay

away from the economy. This is a reason we can put market system at the top of the list of vulnerability on this criterion of comparison.

As mentioned before, Sternberg (2004 :72) uses the analogy of *MOT* and auditor. For him, they are very similar because “[t]he MOT does not guarantee that the vehicle is safe” and “in like fashion, an auditor merely confirms that financial statements have been drawn up in accordance with Generally Accepted Accounting Principles”.

Finance in socialist societies does not have a proper auditing mechanism either, because the accountancy makes sense at the top level only and the only people that can audit the record keepers are the same members of the communist party if not the members of the same party located in courts. Actually in a BBC documentary about China, a lady judge accepts that her party membership is not deniable in the court (Lewis *et al.*, 2006). This puts socialism in the second position because the socialist system at least is willing to prevent bad practices through control. In Islam though there is neither the principle of central control with very few checks and balances nor wilful ignorance as a principle for the sake of better liberty in the marketplace. On the contrary, Islam orders the establishment of an enforcement force to oversee the markets.

Table 7.64 puts these arguments in order of financial systems. Thus market finance tops the list followed by socialism because of socialism’s lack of internal control and lack of separation of powers under the command of communist parties.

Table 7.64: Comparison of Audit Systems as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.2.2.4. Control and management of finance

According to Sternberg (2004: 71) many faults that were attributed to auditors were in fact the faults of managers because they were “misreporting corporate performance” (Bebchuk and Bar-Gill, 2002: 1).

Keiser (BBC World News, 2011; emphasis added), a financial analyst, draws a grimmer picture of the managers by claiming that when he worked in Wall Street he observed that:

Everyone kicks upstairs the bribes. The brokers bribe to the office manager, the office manager bribes to the regional sales manager, the regional manager bribes to the national sales manager. This is a common understanding. At Christmas, who gets the bonus in an average brokerage house? It's the compliance officer. The compliance officer sits there all day long; he supposed to be making sure you do not violate any of the margin rules. That you are complying the law. Of course... to the extent that you can bribe the compliance officer, you are complying the law... *Fraud is not a product of the system. Fraud is the system.*

In a similar vein, Nick Leeson of Barings Bank asks:

Why didn't those people who run Barings come to you and say what are you doing? Because they are stupid. They don't understand the business they should have never been in the position of owning. Especially people like Tony Horse he was supposed to be the global treasury function. He supposed to understand derivatives. He didn't and he would pay the money every single day. Would accept pretty ridiculous explanations from me. It wouldn't happen in Morgan and Stanley. In Barings they had a lot of idiots. Basically in every one of the controlling functions. They are asking questions but they wouldn't going to pin off. They didn't understand the basics of the business. (Curtis, 1998)

In the case of finance in the market system, the management and control is either very weak or virtual, and this is because of the belief that the more liberal and free of control the markets are the better their performance will be.

Since the “institutional ownership is an increasingly dominant feature of developed financial markets” (Stracca, 2005: 5) investment is usually a decision of a group of people in certain corporate rules and regulations and principles. For instance “pension funds are predominantly managed by corporate treasurers, who often delegate the asset management to a third party, thus creating an additional layer of agency” (Stracca, 2005: 5). Limitations and control on the decision making in these many layers of agencies are seen as limitations on financial opportunities¹⁸². Thus, “active management¹⁸³ appears to subtract, rather than to add value” (Stracca, 2005: 5), the efficient markets hypothesis in macro level markets has effects in organizational culture as well. Western organizations act on liberal control mechanisms. They claim that when the financial organization is left with minimum control the results are better

¹⁸² E.g. control may cause missed opportunities if a financial action is possible only after a control mechanism.

¹⁸³ Apparently includes constant control.

because of the free competition between the individuals for bonuses and other benefits.

Control, according to the market paradigm, kills entrepreneurship and creativity. However, liberty has a price and the price is usually the vulnerability to financial crimes. This is why we put the market financial system at the top of the list. Corruption levels in socialist and Islamic systems especially in recent decades are measured and draw a grim picture for both of these systems, worse in fact than the market economy, nevertheless these are the results of inabilities because these systems are not against control, unlike *laissez faire* capitalism and market financial system.

As can be seen in Table 7.65, socialism should be at the bottom of the list because it is widely accepted in various literatures in social sciences that socialism applies far more control over the society compared to other systems.

Table 7.65 shows the order of financial systems' vulnerability against FWCC in terms of 'management and control systems'.

Table 7.65: Comparison of Control and Management Systems as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Fully Islamized/Moral Financial Systems
4 (least vulnerable)	Socialist/Transitional Financial System

7.2.2.2.5. Business ethics

Obviously, the first thing to criticize in a comparative study of financial crimes about both capitalism and socialism would be the lack of 'moral filter'. Islamic/moral economics and finance require such a filter to produce an Islamically accepted outcome in the economic and financial activity. Chapra (2003: 24-5) explains 'the loss of moral filter' as follows:

Since the socio-economic importance of religion essentially lies in the collective sanction it provides to moral values, ..., the loss of the religious

sanction for values was a great tragedy. Society became deprived of the socially-agreed filter mechanism. ... Consciousness of the human self may still be there to serve as a filter mechanism at the individual level, it is not sufficient to perform the function of a socially-agreed filter mechanism which is needed to create a harmony between individual self-interest and social interest.

“Islamic rules of economics make it binding for human beings not only to abide by the Shari’ah tenets relating to dos and don’ts but also to keep in mind the impact of their activities on others and society as a whole” (Ayub, 2007: 42). This implies that Islamic moral economy “adopts a balanced approach between an individual’s freedom and the well-being of society” (Ayub, 2007: 42).

Why would not consciousness of human self serve as a filter mechanism? Chapra 92003: 25) cites famous Western philosophers and scholars, Will Durant, Arnold Toynbee, Jeremy Bentham and others:

Toynbee and Duran have rightly concluded, after their extensive study of history, that moral uplift and social solidarity are not possible without the moral sanction that religion provides. Toynbee asserts that: religions “tend to quicken rather than destroy the sense of moral obligation in their votaries” and that “the brotherhood of Man presupposes the fatherhood of God – a truth which involves the converse proposition that, if the divine father of the human family is left out of reckoning, there is no possibility of forging any alternative bond of purely human texture which will avail by itself to hold mankind together”. Will and Ariel Durant have also observed forcefully that “there is no significant example in the history, before our time, of a society successfully maintaining moral life without the aid of religion”.

Consequently, market ethics is utilitarian ethics and does not have the moral filter of either solidarity or morality, but some people operating in those markets do have moral filters stemming from Christian/Jewish traditions, despite the fact that this morality is constantly weakening.

This is the main reason why the Islamic financial system should be at the bottom of the vulnerability list in terms of this specific criterion. It has this filter constantly publicized, assured, and renewed.

As can be seen in Table 7.66, since socialism rejects the morality of organized religions, its ethical strength can be considered to be the most vulnerable one, in relation to financial crimes. However, solidarity is constantly enforced in socialism and it is not a neutral characteristic in the process of becoming a white-collar

criminal. Despite the existence of solidarity, though, socialism comes second in the list, because social solidarity is valid only in socialist markets. In international markets, solidarity can even be considered as a catalyst in the process of becoming a white-collar criminal, because it does not recommend ethical behaviours for the ‘others’ explicitly or at least not as strongly as Islamic/moral economics and finance do.

Table 7.66: Comparison of Business Ethics as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.2.2.6. Corporate governance

Corporate governance has political economy implications, and it is expected that different political economies will have different corporate governance structures. A survey indicates that there are mainly two categories of corporate governance systems in the world: insider-dominated and outsider-dominated models (Franks and Mayer, 1994; Short *et al.*, 1998). The insider dominated system is mostly known as the German and Japanese model and the outsider dominated model as Anglo-Saxon style (Roe, 1993).

The literature refers to these systems, respectively, as ‘relationship-based^[4]’ (Melis, 2000) and ‘market-based’ (Zysman, 1983) systems as well. From a discursive point of view, relationship-based (or insider-dominated, stakeholder-emphasized) corporate government systems are popular in socialist and neo-socialist political systems such as China and market-based (or outsider-dominated systems) are popular in market/capitalist political economies. We may argue that Islamic corporate governance is in between insider and outsider-dominated corporate governance structures, but suggests a larger stake holding than the German or Japanese models.

In terms of ownership Islam does not impose a specific form of corporate governance.

For instance separation of ownership and management and thus the principal-agent problem existed in the personal life of Prophet Muhammad. He was the manager of a business which was owned by his would-be wife *Khadija*. So, it is hard to argue that Islam is directly against the shareholder view of corporate governance, but it is also hard to argue that stakeholding has little importance in its most comprehensive form in Islamic forms of corporate governance. First of all, Islamic corporate governance is different from the mainstream corporate governance theories. It is based on *tawhid* and *it suggests a large and sustained*¹⁸⁴ *stakeholding*. The Islamic literature sees shareholders as individuals and not necessarily legal and separate bodies of different identity outside the identities of the owners. However, the individuals have the full responsibility of their social and physical environment in Islam. Nevertheless, some of these responsibilities may not appear in the legal codes and are left to the hereafter.

Corporate governance policies were initiated in the UK, specifically by the Cadbury Report (1992), and diffused therefrom. One can argue that “countries are attempting to reduce their differences and there is a possibility that corporate governance will converge at a global level” and the flow of convergence is towards the Anglo-Saxon style (Solomon, 2010: 194, 195).

According to Solomon (2010: 205): “A problem for many policy-makers and politicians is the potential for countries to be forced into the Anglo-American-style capitalism and corporate governance, when this is not the best route for them to take, given the characteristics of the economy”.

Because of the principal-agent problem of the outsider dominated corporate governance system, such systems are more vulnerable to financial crimes compared to insider-dominated systems. In socialism though, there is no private property and thus no corporate ownership issues emerge. Ownerships are held by the public as a whole and the principal-agent problem is not a commercial but a political problem. The greater public as not stakeholders, but the real owners of, for instance, *kolkhozes* do not usually have access to their agents in the capital of the market. In this sense, the socialist style of corporate governance is indeed equal to the state’s governing of a corporation and not a ‘governance’.

¹⁸⁴ Because of the ban on speculation.

Table 7.67 shows the last order of financial systems' vulnerability against FWCC in terms of 'corporate governance systems' as an immediate defensive space. This Table concludes our comparison. The order reached in this table is combined with the earlier tables to reach Table 7.68. Table 7.68 repeats the same results for further comparison to reach the final ordinal places of immediate spaces shown in Table 7.69,

Table 7.67: Comparison of Corporate Governance Systems as an Immediate Financial Defensive Space

Their Order	Financial Systems
1 (most vulnerable)	Socialist/Transitional Financial System
2	Market/Capitalist Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

In sum, the resultant picture of the comparative defensive spaces of the financial systems against white-collar financial crime is as follows (Table 7.68 and Table 7.69):

Table 7.68: Comparison of the Total Effect of Immediate Financial Defensive Spaces

Their Order	Financial Systems
$1+2+1+1+1+2 = 8$ (most vulnerable)	Market/Capitalist Financial System
$3+1+2+4+2+1 = 13$	Socialist/Transitional Financial System
$2+2+3+2+3+3 = 15$	Partially Islamized/Moral Financial Systems
$3+2+4+3+4+4 = 20$ (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.69: Comparison of the Total Effect of Immediate Financial Defensive Spaces (for Further Analysis)

Their Order	Financial Systems
$8 / 6 = 1.3 \rightarrow 1$ (most vulnerable)	Market/Capitalist Financial System
$13 / 6 = 2.16 \rightarrow 2$	Socialist/Transitional Financial System
$15 / 6 = 2.5 \rightarrow 3$	Partially Islamized/Moral Financial Systems
$20 / 6 = 3.3 \rightarrow 4$ (least vulnerable)	Fully Islamized/Moral Financial Systems

Consequently, the combined effect becomes as shown in Table 7.70. Considering all the opportunity spaces and defensive spaces both as greater, secondary effects and immediate, primary effects, market society tops the vulnerability list and fully Islamized financial systems are at the bottom.

Table 7.70: Comparison of the Combined Total Effect of both Immediate Opportunity Spaces and Immediate Defensive Financial Spaces (In the Same Order)

Their Order	Financial Systems
$1 + 1 = 2 \rightarrow 2 / 2 = 1$ (most vulnerable)	Market/Capitalist Financial System
$2 + 2 = 4 \rightarrow 4 / 2 = 2$	Socialist/Transitional Financial System
$3 + 3 = 6 \rightarrow 6 / 2 = 3$	Partially Islamized/Moral Financial Systems
$4 + 4 = 8 \rightarrow 8 / 2 = 4$ (least vulnerable)	Fully Islamized/Moral Financial Systems

7.2.3. Targets in the Financial Opportunity Spaces

Offenders of financial crime aim at the targets inside the opportunity spaces. The magnitude and characteristics of the targets increase/decrease the value, density and vulnerability of the opportunity spaces. Because of this effect, the vulnerability of the system differs as the qualities of the targets differ in different systems. In this sense, all financial systems can be put in different cardinal orders depending on the financial targets aimed at by the culprits.

However, opportunity spaces cannot be envisioned as simple characteristics of the environment specific to various crime types (such as dense markets high opportunity for unfari competition, manipulation. quick market higher opportunity for speculation, weak control markets high opportunity for tax evasion, complex markets higher opportunity for fraud etc.) because this approach disregards the effects of individual motivation, social effects of other individuals in the society along with political and bureaucratic structure of the state. It is possible to not have competition crime even in very dense markets and speculation in very quick markets as it is well established in the literature

Now let us analyse these targets along with their differing characteristics to sort them out according to their vulnerability in relation to financial crimes.

7.2.3.1. Price Fixing

In socialist societies, “the authorities are able and willing to impose a price by decree ... in such cases, what is needed is not a buffer stock but either a docile populace willing to accept queuing as a way of life or a secret police capable of preventing the market from reasserting itself – preferably both” (Copeland, 2008: 41). This is why the socialist system is the primary suspect for price fixing but the prices are not fixed by some free operators in the market but the governments. Nevertheless, we define crime in a socio-legal way. In this sense, not all of the price-fixing is defined as crime in Socialist states but it is easiest to conduct in socialist systems.

Under socialism, most of the time, price fixing is done by the governments, but socialist governments are not the only governments who fix prices. For instance, in the US, at the time of World War I, prices of some commodities such as wheat and oil were fixed by using mainly two methods (i) average cost of earlier prices (supply and demand), (ii) “marginal cost of production” (Simpson, 1919). Nevertheless, in a market system prices are usually fixed by private corporations with a large proportion of a given market. Standard Oil in the US is a good example from the 20th century.

Not only price fixing but other financial crimes such as speculation and manipulation are also committed by “a ‘large trader’ ... whose trades change prices” and change them “only because of size” (Jarrow, 1992: 312).

Therefore, governmental authorities enact laws “to purge the securities exchanges of those practices which have prevented them from fulfilling their primary function of furnishing open markets for securities where supply and demand may freely meet at prices uninfluenced by manipulation or control”¹⁸⁵.

Price fixing and being a monopoly or monopsony (*ihthikar*) in the market is prohibited in Islamic Law as well (Nawawi, 2009: 31- 38; Ilgen, 1998: 179-188). As for opportunity space for price fixing, the main determinant of price-fixing is the market density. It is not possible for financial institutions and individuals to fix prices before gaining ruling positions and market density is one of the most important prerequisites

¹⁸⁵ Senate Comm. on Banking and Currency, Stock Exchange Practices, S. Rep. No. I455, 73d Cong., 2d Sess. 30 (1934) (The "Fletcher Report"), Reprinted in 5 Legislative History of the Securities Act of 1933 and Securities Exchange Act of 1934, at Item No. 21 (J. S. Ellenberger & Ellen P. Maher Eds., 1973).

of such positions. Usually in socialism one state company is the sole representation of the whole market or the whole industry while in capitalism and Islamic finance, the big firms with enormous market power can commit competition crimes.

7.2.3.2. *Speculation*

One of the main reasons for regulating financial markets is to prevent speculation. Fischel and Ross (1991: 503) for instance, argue that the Securities Act of 1933,¹⁸⁶ the Securities Exchange Act of 1934¹⁸⁷ and Futures Trading Act of 1982¹⁸⁸ in the US were enacted to prevent the ‘excessive speculation’ that took place in the stock market crash of 1929 and Great Depression of 1930.

Speculation is a crime not only because many laws state so, but also because it is socio-legally defined as crime. Speculation is defined as a crime because it brings about much harm to financial markets, some of which are mentioned in the Securities Exchange Act as follows:

Speculation which “produce widespread unemployment and the dislocation of trade, transportation, and industry, and which burden interstate commerce and adversely affect the general welfare, are precipitated, intensified, and prolonged by manipulation and sudden and unreasonable fluctuations of security prices and by excessive *speculation* on such exchanges and markets. (emphasis added).¹⁸⁹

Some other examples of harm from price destabilizing speculation are given by Jarrow (1992: 312), who argues that “when trading strategically, the large trader (called a speculator) generates profits at no risk, i.e., creates arbitrage opportunities”.

Indeed, even the scholars who prefer not to make “moral distinctions between speculators and non-speculators” (*i.e.* Copeland, 2008: 40) cannot help themselves but make references to “‘goodies’ and ‘baddies’”, “‘genuine’ traders¹⁹⁰” and “gnomes of Zurich¹⁹¹” whenever they discuss currency speculation.

Speculation is not acceptable, and like interest it is prohibited, under Islamic law as well (Ilgen, 1998: 184; Tabakoglu, 2008: 64), because, as Jarrow (1992: 312) puts it,

¹⁸⁶ Pub. L. No. 73-22, 48 Stat. 74 (codified as amended at 15 U.S.C. ? 77a-77aa (1988).

¹⁸⁷ Pub. L. No. 73-291, 48 Stat. 881 (codified as amended at 15 U.S.C. ? 78a-7811 (1988).

¹⁸⁸ Pub. L. No. 97-444, 96 Stat. 2294 (1983) (codified as amended at 7 U.S.C. ?I-26 (1988).

¹⁸⁹ U.S.C. 78b(4) (1988).

¹⁹⁰ Importers, exporters, long-term investors.

¹⁹¹ Short and very short term (*i.e.* minute long) investors who are “cynical” (Copeland, 2008).

speculation “generates profits at no risk”. It is an ‘unearned profit’ (Morrison, 2002: 222) according to Islamic law.

As for the opportunity space of the speculation, the main determinants of the opportunity space for speculation are the investment and investor turnover rates in financial markets and the frequency of contracts that reach dead end.

For instance for both Americans and Europeans put options writers earn by expecting an unfulfilled contract and the buyer may not deliver it at all. Thus, the option contracts with no fulfilment at or before (for American options) the exercise date reach a dead end and the frequency of such contracts provide an opportunity to measure the level of speculation in the financial markets. In a similar vein, frequency of the turnovers, (such as the time-span between buying and selling of the same percentage of share by the same buyer/seller) provides an opportunity to measure how big the opportunity space for speculation in any given market is.

In this sense, speculation in the market system occurs many times more than in socialist or Islamic systems, because in socialism the financial markets operate either on command or on a central plan which is not really open to speculation. Whatever the state dictates or indicates about the markets must be accepted, because the state has the information monopoly. Therefore, there is very little space to create arbitrage opportunities in such markets because everybody has similar information about the limited number of (state) agents in the market.

As for the difference between Islamic and market systems, we may argue that the market system defines speculation as a crime only in the socio-legal sense, but not in a definitive way, whereas Islam defines it in a clear-cut legal manner. In this sense, we may conclude that the opportunity space for speculation is bigger in market societies compared to the Islamic financial system because the system does not guarantee a legal punishment for such financial acts in market societies. Indeed in a market system, agents even see speculation as a mundane, legal event and everyday mechanism of the financial markets, which is not so in Islamic finance.

7.2.3.3. *Manipulation*

Manipulation like other financial crimes is also committed by “a ‘large trader’ ... whose trades change prices” and change them only “because the ‘other side’ of the market believes (with some probability) that the large trader is informed, regardless of the possible information they may really have” (Jarrow, 1992: 312).

“Even without proprietary information, these traders can sometimes manipulate prices to their advantage and generate profits at no risk.” (Cherian *et al.*, January 01, 1993: 201).

Manipulation is usually an artificial transaction with a big impact on financial markets (Yıldırım, 1990) and is an attempt to control price and to encourage people (and machines) to make transactions by deceptive, misleading acts, transactions and information (Tweles *et al.*, 1992: 317). Manipulation can also be considered as an act of manipulating rationality by purposefully changing the circumstances or information make-up of a given market.

Nevertheless, it is not easy to deceive the rationality of people when they have enough time to contemplate their investment. This could also be an important parameter of the market manipulation, that is, the speed of the processes of buying and reselling in the market. The following can be considered to be an example:

About his manipulation of the Nikkei Index, Leeson of Barings states (Curtis, 1998);

The market movement allowing and increasing at the same time. Everything is increasing, my capability to accept the loss, the capability to accept the larger market movement, the capability to accept the larger position. Everything increases during the period, everything is building.

In sum, manipulation is crime under all financial systems compared in this study, market and Islamic (Ilgen, 1998: 179) and socialist.

As for opportunity space in relation to manipulation, the main determinant of opportunity space for manipulation is the market density. Just like price-fixing, manipulators also need to gain a ruling position in the market and the density in those markets is the most important indicator, most important prerequisite of such positions. Therefore, one can measure the opportunity space for committing the crime of financial manipulation in the market density of any given market.

However, the availability of the stock market is a prerequisite for the market density. In socialism the market does exist, because even in the wildest forms of socialism all attempts to abolish money and to destroy the markets failed (Hamburg and Teaching Company, 1977). Market socialism is thus inevitable in socialism, but the magnitude and the functionality of it differs greatly in different forms.

Conversely, in Islam, the stock market existed from the very beginning of Islamic economics but an organized stock market in the conventional understanding is rather new in Islam. Muslims used to buy shares of each other's companies (*shirkah*) but they did not use an organized stock market in order to quicken the process of buying and selling the commodities or *shirkahs* probably because they considered it as a speculation. Even in the 21st century, stock markets in Muslim economies either do not exist at all or are in their initial stages of development.

In this sense, one can argue that one would experience less manipulation in Islamic markets and even less in socialist economies compared to capitalist, market economies. In addition, there is little doubt that a market economy has the fastest means of market transactions and information centralization which is a catalyst for market manipulation.

7.2.3.4 Fraud

In order to get a deep understanding of the availability of financial crime targets in socialism, we need to look at the '*opportunity spaces*' in socialism, and thus to the interactions of the financial agents individually, institutionally and with the environment. When we look at the financial agents as living organisms in financial systems, who are interacting with the financial environment and trying to catch more of the available sum all the time, socialists, with a rewriting of social change rules by eradicating private property, apparently, encourage those agents not to compete on those profits and settle them down, and of course decrease the activity level of the system dramatically by decreasing the opportunity spaces.

As regards to the opportunity space for fraud in relation to the system understanding, the main determinant of financial fraud is the level of innovation and availability of various numbers of financial tools for the investors in the markets. For instance, in Islamic financial markets, the volume of opportunity space is lower than the market

financial system because in Islamic finance fewer tools are available for the investors. For instance, all the tools that include *riba* (interest) and *gharar* (uncertainty) are forbidden in Islamic finance. Islamic finance firms can also not invest in certain markets such as the ones producing or selling alcohol, drugs, pornography, even cigarettes in some countries.

In addition, Islamic finance has fewer financial tools. It has those such as: *sukuk* (Asset-Backed Leasing Bonds), *musharakah* (profit and loss sharing), *mudarabah* (venture capital), *tawarruq* (short term liquidity provision), *murabahah* (mark-up priced sale), *eina* (trade financing), *salam* (prepaid forward sale), *istisna'* (commission to manufacture), *'urbun* (down-payment sale) *etc.* but some of these tools' legality, (such as *tawarruq*) is still under discussion. Thus, in this limited volume of financial markets, there is less opportunity to cook accounting books in Islamic finance and even less in socialist finance. In socialist countries such as China, financial crimes are considered to be one of the cruellest kinds of crimes and punished by death sentences (*The Register*, 2009; *New York Times*, 2012; Aljazeera, 2009), which decreases the financial opportunity space for fraud dramatically.

Moreover, the possibility of increasing the number of financial tools is really low in Islamic finance. For instance, Islamic financial institutions cannot use some of the tools of the trade such as options. American call and put options are not allowable in Islamic finance because their delivery date is uncertain. Thus, the market financial system has this whole market of American options market as an additional opportunity space to create financial frauds, which is lacking in Islamic finance. Savings accounts are another example of asymmetric volume of opportunity space between Islamic finance and market finance, because in Islam, one needs to draw whatever he/she deposits earlier to the Islamic Bank.

Inversely, it is very hard to spot certain tools or additional markets that do not exist in market finance but in Islamic finance. Thus in general, it is really difficult to find a better opportunity space for fraud in Islamic finance compared to market finance.

Nevertheless, there may be a loophole, which may be responsible for a great number of financial crimes and outpace all other means of financial crime in one or more of these financial systems, but the volume of this study is already too large to discuss

such circumstances.

Convertibility of the value of targets is also important for a comparative analysis. For instance, US dollar, GB sterling and the Euro are more convertible. Thus, compared to Chinese, Cuban, Malaysian, Saudi, Iranian and Sudanese currencies, currencies of market societies are more vulnerable to financial crime, because they are more attractive and convertible.

In recent times, many electronic targets began to be more convertible than currencies. For instance, derivatives are one of these tools. The fact that “[t]rade in derivatives grew enormously in the 1990s” (Morrison, 2002: 324) is the proof that people, at times, prefer these tools rather than currencies and currency market derivatives. This makes such tools more vulnerable to financial crimes which are widespread in market finance.

7.2.3.5 Tax evasion

Discussion of tax evasion and tax compliance goes back to the history of the state, the philosophical debates of ‘social contract’. According to Vinhanto (2000: 5) for instance, there is “[a] social contract as a basis of tax evasion particularly in transition economies that have inherited a deep mistrust of government from their socialist past”, but the history of Western democracies is also full of such hot discussions (*e.g.* those of Rousseau, Locke).

Crowe (1944), one of the few contemporary thinkers on taxes, examines the perspectives on tax compliance in three ways, as a responsibility of the individual: (i) to the state, (ii) to the community¹⁹², (iii) to God.

McGee (January 01, 2006) prefers another three fold categorization of views: (i) tax evasion is never ethical, (ii) always ethical, and (iii) sometimes ethical. McGee (January 01, 2006) argues that

Some recent empirical studies that solicited the views of segments of the populations in Romania (McGee, 2005a), *China* (McGee and Guo, 2006; McGee and Yuhua, 2006), *Hong Kong* (McGee and Ho, 2006), Argentina (McGee and Rossi, 2006), Guatemala (McGee and Lingle, 2005), Poland (McGee and Bernai, 2006), Armenia (McGee and Maranjyan, 2006), Germany

¹⁹²Mironov (2008: 1) argues that naming ‘stealing’ as tax evasion is a politically correct way of naming it.

(McGee et al., 2005) and Ukraine (Nasadyuk and McGee, 2006) found this view to be widespread.

McGee (1999) also found in Armenia that the two main reasons for evasion were “the lack of a mechanism in place to collect taxes” and “the widespread opinion that the government does not deserve” tax. In a follow-up study McGee and Maranjyan (2006) found a widespread belief in the society “that there is no duty to pay taxes to a corrupt government” (McGee, January 01, 2006: 16).

Thus, we may argue that “[i]n a common assumption of the economics of tax evasion, ... the choice of a taxpayer to evade taxes depends upon the perceived fairness of the tax system” (Vihanto, 2000: 5), because “[a]ccording to the main hypothesis [of Hayek's theory], taxpayers are more compliant with tax laws to which they can in principle give their full consent” (Vinhanto, 2000: 5).

From a rational choice perspective, when laws are considered to be unfair, there is a more motivated offender and suitable targets increase as the people get richer and the tax money at stake for them gets higher and capable guardians get weaker as it is easier to transfer money to overseas accounts.

“Tax compliance is assumed to increase, for instance, when taxpayers feel guilt or shame for breaking the tax code (Erard and Feinstein, 1994), when they regard the fiscal system as basically fair (Cowell, 1992) or when they observe other taxpayers comply (Myles and Naylor, 1996)” (Vihanto, 2000: 7).

“There are no reliable statistics on those who evade taxes, or even the amounts evaded, because the obvious intent of such evasive activity is to prevent authorities from ever learning the details” (Cowell 1990: 26, as cited in Vihanto, 2000: 6).

Mironov (2008: vii) who constructed “a direct measure of evasion/stealing for 179 public companies” finds out “that big corporations evade 50%-70% less than small ones” in Russia in 2008 and that “large corporations that have assets greater than \$100M evade about two-three times less than small ones”.

Mironov (2008: 1) mentions three ways – other than his own¹⁹³ - of measuring “private benefits of control”: Dyck and Zingales’s (2004), Nenova’s (2000), and Bertrand, Mehta and Mullainathan’s (2002):

However, in many cases big Russian corporations do not send funds directly to “spacemen”¹⁹⁴. In order to hide profits they use affiliated entities which deal with “spacemen”. For example, Gazprom, the largest natural gas producer in Russia, used its affiliates "Gaztaged", “Laingaz”, “Provoidgaz” and other entities for these purposes. In 2003-2004 “Gaztaged” sent \$992M to the spaceman “TrubnyTorgoviy Dom” and “Laingaz” transferred \$267M to another spaceman “Energosintez-M”. (Mironov, 2008: 2).

“Off-shore centres are very important places and are very frequently used for evading tax. For instance in 2001 Sibneft decreased its income tax by 10 billion roubles (\$330M) by selling oil through several traders registered in the low-tax zones in Chukotka and Kalmykia” (Vedomosti (2002, as cited by Mironov, 2008: 5).

There are mainly three types of tax evasion: (i) legal, (ii) illegal and (iii) semi-legal. The first category, legal schemes, “typically involve using external or internal off-shore companies with low tax regimes for profit accumulation” and the second way of legal tax optimization is a so-called “insurance scheme”¹⁹⁵ ... Finally, one of the most popular ways of tax evasion [is] “... decreas[ing] taxable income by inflating expenses through fake contracts.” (Mironov, 2008: 5).

In Islamic economics, tax evasion is a crime (*e.g.* Murtuza and Ghazanfar, 1998), and similarly to the Islamic economics literature, the Bible “discusses tax evasion and the duty of the citizenry to support the government in several places¹⁹⁶” (McGee, 2006: 16).

As for the opportunity space for tax evasion, the main determinant of the opportunity space for tax evasion is the strength of accounting standards in any given financial system, but as is shown in the chapter on ‘guardians’ all accounting standards are converging at an accelerating speed and there remains no significant difference

¹⁹³ Identification of ‘spaceman’ (Mironov, 2006).

¹⁹⁴ “[S]hort-life firms specially created for tax evasion and/or stealing purposes that are typically registered in the names of persons who lost their IDs or homeless people” and live “1.5 years and receive monthly revenues of about \$470K, that is 3.5 times higher than the average cash receipt of regular firm[s]” in Russia (Mironov, 2008: 1), also called “dump”, “flash-light”, “bruise”, “hedgehog” (Vedomosti, 2005).

¹⁹⁵ According to Expert (2004), the share of the “insurance schemes” was 44% of the entire insurance market (Mironov, 2008: 5)

¹⁹⁶ *e.g.* Jesus, in the Bible, says: “Give to Caesar the things that are Caesar's”.

between them.

In market finance though, there is much more to declare compared to Islamic finance and Socialist finance. First of all, in socialism there is no or very limited private property, and in simple terms almost everything belongs to the state. Therefore, it is pretty difficult to deserve the right of privately possessing property let alone hiding it from the state. Even if this was possible in a socialist state which controls every single bit of economic life it is almost impossible to evade tax. Indeed one could argue that the whole life of the socialist public is deemed to be ideally devoted to the tax or public good. In such a society of constant enforcement of solidarity, it is difficult to come up with people who eagerly look for ways of evading tax. Therefore, socialist finance is the least possible candidate for evading tax.

Tax revenue literature in some countries (such as in Turkey) categorizes income tax as tax from purely financial activity and tax of revenue as stemming from the real economic activity (Kahraman, 2008: 8). This is one of the reasons why Islamic finance comes after the market finance, because in Islamic finance, all financial activity must be backed by the real economic activity. This is indeed not simply less volume of financial activity and hence less tax, obligations recorded on accounting books estimates are more than hundred time less volume according to Chapra (2009). On the other hand, especially in earlier times the Islamic tax evaders (if we accept *zakah* as a tax from rich to the poor), were taken as outlaws and war was waged against them by the first *Khalifa Abu Bakr*. However many Islamic jurisdictions are not very strict in application in recent centuries, but still Muslims believe that because tax evading takes place against the whole public, it deserves the devastating amount of suffering in the afterlife compared to crimes against certain people. Nevertheless, there is a considerable amount of opportunity in Islam compared to socialism. These are some of the important reasons why Islamic finance should come second in the list.

7.2.3.6. Value of Financial Targets

We may categorise the financial crimes according to their *values* for offenders and the damage they do to financial systems through the following criteria, hence:

- (i) Price-Fixing;
- (ii) Manipulation;

- (iii) Speculation;
- (iv) Fraud;
- (v) Tax Evasion.

Price-fixing usually returns a sustainable future return for a long period of time while tax evasion takes place only for a certain period and only for a certain part of the reported gains. Since the tax is a smaller part of the overall gain the offender receives its value is less than price-fixing.

Market manipulation is a less valuable crime for offenders as it is done for specific periods of time and for specific circumstances, whereas price-fixing is a constant phenomenon in the marketplace and attempts to change the most fundamental factor of the market, 'price'. In a way, price-fixing is constant market manipulation.

Speculation is a less valuable crime for the offender, because its effect is less than both price-fixing and manipulation. If the offender has enough power, it would choose to manipulate the market and would not be contented with only speculating in it. Speculators are usually individual offenders unlike institutional offenders because speculation is easier to do and yields less return.

Still, for individual speculators, evaded tax is only a fraction of the gain from speculated assets. As for the relative weights of the financial targets in market economies, Table 7.71 can be used.

Table 7.71: Relative Market Shares of Different Kinds of Financial Targets

	Hedge Funds*	Pension Funds*	Investment Funds*	Insurance Firms*	Global Assets Of The 1000 Biggest Banks	Hedge Funds %
1998	0.22	13.57	9.40	10.40	35.50	0.30
1999	0.32	17.26	11.40	11.50	36.70	0.40
2000	0.41	16.07	11.90	10.10	37.90	0.50
2001	0.56	15.24	11.70	11.50	39.60	0.70
2002	0.59	13.79	11.30	10.40	43.90	0.70
2003	0.80	18.30	14.00	13.90	52.40	0.80
2004	0.93	18.80	16.20	15.00	60.50	0.90
2005	1.13	20.55	17.77	16.20	63.80	0.90

Source: International Financial Services, 2007.

7.2.3.7. Visibility of financial targets

We may categorise the financial crimes according to their *visibility* for offenders as follows:

- (i) Tax Evasion;
- (ii) Speculation;
- (iii) Manipulation;
- (iv) Fraud;
- (v) Price-Fixing.

Tax evasion is the first candidate for the visibility, because it is obvious for any offender to negotiate and save any possible discount from earnings. Speculation is the second best candidate because it is obvious for the speculators whether the market goes down or up. Since they use these short or very short time waves of rise and fall to profit from it is easy to know because following the financial markets in today's technology is still very easy. However, it is not as visible as tax evasion, because tax evasion is a product of a mandatory process of tax, and it does not require an extra effort to be aware of the opportunities but speculation does.

Manipulation is the third most visible financial crime, because it is rather apparent that if one's assets are losing value, a gain would be possible (initially gain from loss and then the real gain) if the offender could manipulate the market or if the competitor's assets gain value, but there are more ways of doing manipulation compared to speculation and it is less visible because it is not driven by the market. It is on the contrary initiated by the offender and thus requires better visibility and alertness than speculation.

Fraud is the fourth most visible financial crime, because it requires an extra effort to observe the opportunities of profiting from the malfunctioning of the market. The lack of supervision, regulation and monitoring in the market needs to be seen before manipulation which requires a better visibility compared to tax evasion, speculation and manipulation.

Price-fixing is the least visible financial crime, because it is not market-driven and it is not intuitive like tax evasion and speculation too. Price-fixing is the least visible financial crime because there are many different possible ways of reaching the price-fixing status and more importantly staying at that status. Both reaching and sustaining

price-fixing requires the strongest vision and constant watching of the market.

7.2.3.8. Accessibility of Financial Targets

We can categorise financial crimes according to their *accessibility* as follows:

- (i) Tax Evasion;
- (ii) Speculation;
- (iii) Fraud;
- (iv) Manipulation;
- (v) Price-Fixing.

Tax evasion is the most accessible financial crime, because offenders have to report tax at certain intervals and at every new interval the possibility of not reporting certain gains and losses is very easy. Besides it is not '*doing*' something, but '*not doing*' something and thus easier to explain (*i.e.* by mistake, misunderstanding, misinterpretation) and convert (*e.g.* showing a personal earning as a corporate earning or vice-versa.). In addition, one does not need to convince or affect others (unlike speculation) while avoiding tax and can easily rationalize it (*e.g.* by saying that tax laws are so unjust, government is rich, poor are paid less *etc.*).

Speculation comes next in the ranking, because it still needs interaction in the market with others. One cannot speculate alone but one can evade tax alone and this is why tax evasion is at the bottom of the list and it is above others because it is very easy to use the necessary transactions of speculation via legitimate and fast ways.

Fraud is obviously less accessible than speculation and tax evasion, because it requires a special set up and a better understanding and control of the market and its agents, structures, processes *etc.* Its accessibility is less than manipulation and price-fixing because the offender does not have to move, force, the whole market and must convince only a fraction of it

Lastly, manipulation and price-fixing are the least accessible financial crimes because they require large scale influence of markets and prices. Manipulation requires such a power for specific times in the market while price-fixing requires this power constantly and this is why price-fixing is at the end of the accessibility order of the financial crimes, because offenders need the biggest market share either solely or in a group for a long time to fix prices.

7.3. CONCLUSION

In this part of the research, what is looked for is not causality, nor correlation. These were the aims of the previous analytical Chapter. In this Chapter, we merely try to explain the latent differences between certain financial systems.

Nevertheless, our results predict that there are more opportunities to commit crime in the market financial system and less defensive space to prevent it. Since “[g]ood prediction does not depend on causal relationships. Nor does the ability to predict accurately demonstrate anything about causality” (Vaus, 2001: 4), our predictions can be used to predict financial white-collar crime in the context we presented here. As explained in the discussion of methodology in Chapter 5, it is almost impossible to reach statistics about white collar crime let alone white-collar *financial* crime. Usually, either the crimes are not in fact white-collar or financial or the statistics are only periodically collected if collected at all.

Hence, our results in this Chapter could be taken as the best we can get for prediction because, as is well known in the science community, it is very hard to lay down predictions based on causality, but even then causality needs commentary because “[r]ecognizing that causation is more than correlation highlights a problem. While we can observe correlation *we cannot observe cause*. We have to *infer* cause” (Vaus, 2001: 4).

The combined results can be put after such a necessary explanation. Table 7.69 summarizes and combines all the results of our comparative analysis in this Chapter. In order to reach these results we first compared the secondary effect of environment by using the greater opportunity spaces and the greater defensive spaces of financial systems we compare. After these analyses, the immediate, primary effects were analysed under the same two titles: opportunity and defensive spaces. This was followed by combining the results to represent the combined effects of the greater financial spaces and using the same procedure to reach a unified result for the immediate financial spaces. Thus, Table 7.72 is the result of the combination of these two spaces and thus the table represents all possible effects of the opportunity spaces both positive and negative, both secondary and primary effects. This makes Table 7.72 the most important and concluding table in this Chapter; however complementary results follow in Table 7.75.

Table 7.72: Comparison of the Combined Total Effect of both Greater and Immediate Opportunity and Defensive Financial Spaces (with the Same Order)

Their Order	Financial Systems
4 + 3 = 7 (most vulnerable)	Market/Capitalist Financial System
6 + 7 = 13	Socialist/Transitional Financial System
8 + 9 = 17	Partially Islamized/Moral Financial Systems
11+ 14 = 25 (least vulnerable)	Fully Islamized/Moral Financial Systems

In our comparison, we used both positive forces increasing the financial crime propensity and the negative forces decreasing it. However, when crime is the concern the comparison is usually based solely on the positive effect. Comparison of negative effects is important and necessary though. To give an example, we may refer to Burke’s (2006) argument on rationality and rational choice.

Burke (2006: 44) agrees that preventive strategies “would involve reform of the law and its administration in order to alter the equation and make crime appear less attractive”. Although this is correct, this is also an oversimplified look at the rational choice because, in our study, we cited some scholars who convincingly argue that, in the UK, preventive strategies mostly relied on reducing or eliminating the targets (*e.g.* payment cards instead of chequebooks). Moreover, education and social development can also change the level of crime disposition.

Indeed, the results are not surprising because the defensive space of the market system has been decreased since the Reagan Administration in the United States and the Thatcher Administration in the UK. The change was so pervasive that the era is even called that of ‘Reaganomics’ or ‘supply-side-economics’, which simply means, reducing both tax and spending, introducing financial deregulation and controlling the money supply to reduce inflation.

It is also reasonable to see a financial system based on religion and morality as the least vulnerable system, because the results are of some behaviour about which the religion promises an eternal punishment.

Arguably the most interesting result is the position of socialism, because it may be expected that socialism with few opportunity and constantly emphasised defensive mechanisms (such as solidarity) should have been at the bottom of the list or closer to

it. Nevertheless, these arguments are correct only for the vast majority of the people living in Socialism. But the rulers of them are white collar individuals and live in a considerably different environment with many consequences for FWCC . When compared to the white-collar criminals in other systems, even capitalism, white-collar people in socialism have enormous power and opportunity to commit crime. We provide examples in the text such as owners of the state conglomerates after the collapse of Soviet Russia.

From our analyses we can also produce a comparative picture of the opportunity spaces and defensive spaces as shown in Table 7.73 and Table 7.74. As seen in Table 7.73 the order does not change compared to Table 7.75 but the results on defensive space's final effects suggest a change in the order between socialist (2nd) and partially Islamised economy (3rd) This is probably because the defensive effects in socialism are better.

Table 7.73: Comparison of the Combined Total Effect of both Greater and Immediate Opportunity Spaces (with the Same Order)

Their Order	Financial Systems
6 + 11 = 17 (most vulnerable)	Market/Capitalist Financial System
14 + 20 = 34	Socialist/Transitional Financial System
12 + 24 = 36	Partially Islamized/Moral Financial Systems
17 + 34 = 51 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.74: Comparison of the Combined Total Effect of both Greater and Immediate Defensive Spaces (with the Same Order)

Their Order	Financial Systems
2 + 8 = 10 (most vulnerable)	Market/Capitalist Financial System
4 + 15 = 19	Partially Islamized/Moral Financial Systems
8 + 13 = 21	Socialist/Transitional Financial System
6 + 20 = 26 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.74 is scaled down so that the financial systems are seen as ordinal places in Table 7.75. All the analyses given in this Chapter achieved the result aimed at, confirming many times that the ordinal places of the financial systems in terms of their vulnerability to financial white collar crime are as in Table 7.76. However, this last rescaling, along with the other four rescalings, remind us that there have been many widening gaps between the cases we analysed and that the rescaling hid those gaps and, in a way, scaled all the varied gaps to a standard gap of ‘1’.

Table 7.75: Rescaled Comparison of the Combined Total Effect of both Greater and Immediate Opportunity Spaces (with the Same Order)

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Socialist/Transitional Financial System
3	Partially Islamized/Moral Financial Systems
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Table 7.76: Rescaled Comparison of the Combined Total Effect of both Greater and Immediate Defensive Spaces (with the Same Order)

Their Order	Financial Systems
1 (most vulnerable)	Market/Capitalist Financial System
2	Partially Islamized/Moral Financial Systems
3	Socialist/Transitional Financial System
4 (least vulnerable)	Fully Islamized/Moral Financial Systems

Let us first see all criteria and the financial systems’ relative positions in the order of vulnerability level according to those criteria first in Table 7.77 and the moving sums and greater sum to compare the effects of criteria from various categories in Table 7.78.

Table 7.77: Financial Systems’ Relative Positions in Terms of the Criteria Used

Criteria	Market	Socialism	Partially Islamised	Fully Islamised	Direction of Effect	Proximity of Effect
Politics	1	4	2	3	Opportunity Space	Greater Spaces
Technology	1	2	3	4		
Society-Culture	1	2	3	4		
Economics	1	2	3	4		
Corporate Environment	1	4	2	3		
Social Relations	1	4	2	3	Defensive Space	
Ethics Education	1	4	2	3	Defensive Space	
Belief of Afterlife	2	1	3	4		
Entropy	1	2	3	4	Opportunity Space	Immediate Spaces
Ownership Structures	1	2	3	4		
Pressure to Markets	1	3	2	4		
Expectation of Markets	1	3	2	4		
Efficiency of Markets	2	1	3	4		
Long/Short Term Focus	1	4	2	3		
Concentration	1	2	3	4		
Complexity	2	1	3	4		
Volume of Assets	1	2	3	4		
Legal and Justice Systems	1	4	2	3		
Accounting Systems	4	1	2	3		
Audit	1	2	3	4		
Control and Management	1	4	2	3		
Business Ethics	1	2	3	4		
Corporate Governance	2	1	3	4		

Table 7.78: Financial Systems' Relative Positions in Terms of the Criteria Used (With Moving Sums and The Greater Sum)

Criteria	Market	Socialism	Partially Islamised	Fully Islamised	Direction of Effect	Proximity of Effect
Politics	1	4	2	3	Opportunity Space	Greater Spaces
Technology	1	2	3	4		
Society-Culture	1	2	3	4		
Economics	1	2	3	4		
Corporate Environment	1	4	2	3		
Greater Opportunity Space Sum	5	14	13	18		
Social Relations	1	4	2	3	Defensive Space	
Ethics Education	1	4	2	3		
Belief of Afterlife	2	1	3	4		
Greater Defensive Space Sum	9	23	20	28		
Entropy	1	2	3	4	Opportunity Space	Immediate Spaces
Ownership Structures	1	2	3	4		
Pressure to Markets	1	3	2	4		
Expectation of Markets	1	3	2	4		
Efficiency of Markets	2	1	3	4		
Long/Short Term Focus	1	4	2	3		
Concentration	1	2	3	4		
Complexity	2	1	3	4		
Volume of Assets	1	2	3	4		
Immediate Opportunity Space Sum	11	20	24	35		
Legal and Justice Systems	1	4	2	3	Defensive Space	
Accounting Systems	4	1	2	3		
Audit	1	2	3	4		
Control and Management	1	4	2	3		
Business Ethics	1	2	3	4		
Corporate Governance	2	1	3	4		
Immediate Defensive Space Sum	21	34	39	56		
Opportunity Space Sum	16	34	37	53		
Defensive Space Sum	14	23	22	31		
Great Sum	30	57	59	84		

Nevertheless, the literature is seriously concerned about the convergence/divergence discussions of the financial systems. In fact, through some more quantitative analysis

this study does provide a final measurement of the level of divergence between the financial systems under scrutiny in terms of financial crime vulnerability.

Let us now turn our attention to this argument. The study needs to make a convincing argument that the distances between the financial systems, in terms of their vulnerability to financial crime, are meaningful. This is a problem because for instance, if one of these systems' scaled, measured position is 1000 and the others are 1001, 1004 and 1011 respectively, all the systems can be accordingly ordered as 1- 1000, 2- 1001, 3- 1004 and 4- 1011. However, compared to the volume of the cases the distance between them would then be meaningless. They all can be considered as the same the entities with the magnitude because of the relative unimportance of the residuals, 1, 4 and 11 compared to the minimum volume, 1000.

The literature on financial systems agrees that the opportunity spaces are converging (Asutay, 2010). To give an example from the context of comparative corporate governance systems, Solomon (2010: 205) argues that “traditional insider-dominated systems have been encouraging greater dispersion of equity ownership. This has helped to cultivate a broader shareholder base and to encourage greater shareholder democracy”.

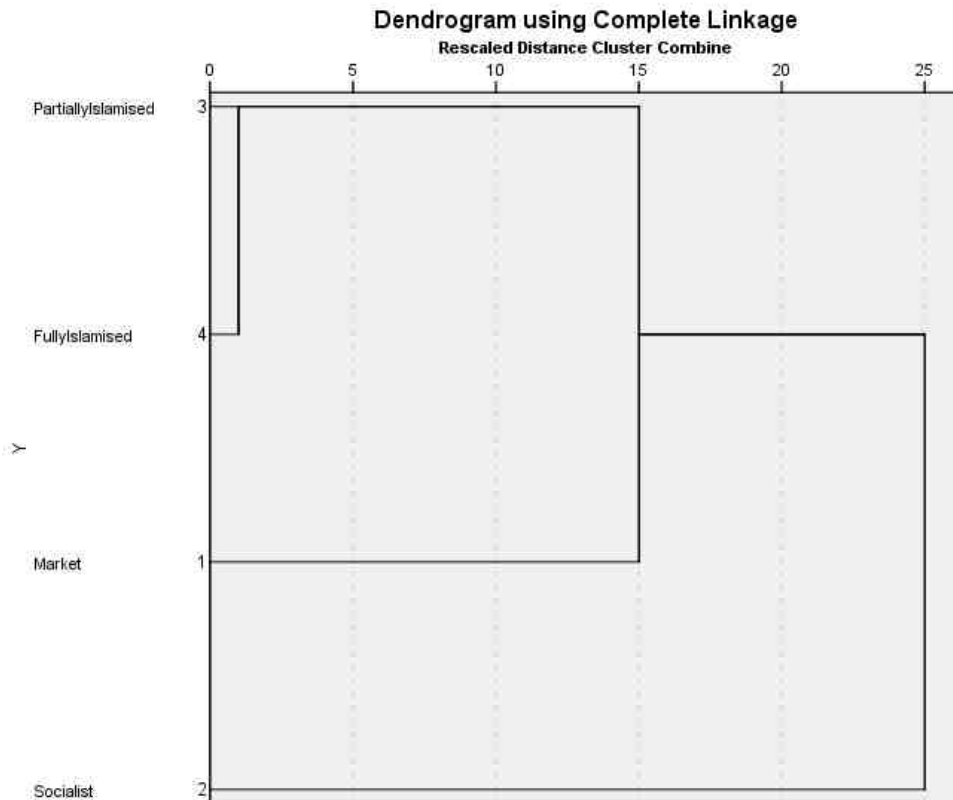
This analysis in Table 7.72 only concludes the comparative ordering of the financial systems in terms of their vulnerability levels against FWCC. We do not yet know that the distances between those systems are meaningful or not. Hierarchical Cluster Analysis¹⁹⁷ (HCA) can be used to see the financial system's vulnerability levels as visual distances between them. Figure 7.6 and Table 7.79 depict such a dendrogram and a proximity matrix which can be used to test the meaningfulness of the ordinal places of the financial systems in Table 7.72.

¹⁹⁷ As mentioned in Chapter 5 on research methodology, the main research method is the grounded theory and the results of this method are presented in Chapter 6. We also explain in the beginning of this Chapter that the comparison between the vulnerability levels of the financial systems are done in this Chapter by means of the theoretical codes produced by the theory presented in Chapter 6 and thus, this Chapter does not intend to use hierarchical cluster analysis as neither the fundamental nor as the primary method but uses it as a confirmation mechanism to see the significance of the distance between the ordinal results. This is why we put aside all the methodological discussions about the variables, power calculations, choice of hierarchical cluster analysis (HCA) versus K-Means, Two Step Cluster, measurement of the variables and other related discussions. However, for a quick reference, we should inform the reader that IBM SPSS Statistics Version 19 is used for calculations and dendrogram generation and the 'nearest neighbor' method is chosen as a cluster method and as an interval measure we used 'squared Euclidean distance'.

As the dendrogram shows, distinctions between the financial systems in terms of their vulnerability levels are meaningful in more than one scale and magnitude. From the most macro level, we observe two distinct vulnerability levels as significantly different clusters: *socialism* and *market* finance (rightmost red line) but fully and partially Islamised financial systems do not appear from this level of outlook as a distinct cluster. However when the observation is scaled down to see more than two financial systems as distinct clusters (leftmost red line) we then come up with Islamic finance (both fully and partially Islamised) as an additional cluster to the upper level clusters and forming three clusters: socialist finance, market finance and Islamic finance. Thus, we can conclude that our analyses suggest that the vulnerability levels between fully Islamized finance and partially Islamized finance are not distinct and meaningful.

Looking at the dendrogram in Figure 7.6, it is also obvious that the distinction between the vulnerability levels to FWCC is most meaningful between Islamic finance (both fully and partially Islamised as a group) and socialism.

Figure 7.6: Dendrogram of Financial Systems’ Vulnerability Levels against FWCC



In a similar vein, Table 7.79 shows that both partially and fully Islamized financial systems are closer to the market finance in terms of their vulnerability levels against FWCC compared to socialism’s vulnerability levels. Vulnerability distance between socialism and market finance is greater than the distance between Islamic finance and market finance.

Table 7.79: Proximity Matrix to Show Distances of Financial Systems’ Vulnerability Levels to FWCC

Proximity Matrix				
Case	Matrix File Input			
	Market	Socialist	PartiallyIslamised	FullyIslamised
Market	,000	69,324	43,756	47,302
Socialist	69,324	,000	78,675	76,405
PartiallyIslamised	43,756	78,675	,000	7,363
FullyIslamised	47,302	76,405	7,363	,000

By these figures and tables we conclude our analyses on comparative vulnerability levels as measured by the opportunity and defensive spaces of financial systems and the level of convergence between these systems. Table 7.80 and Figure 7.7 and Table 7.81 are supplied to show that the comparative results of this study are not responsive to minor changes such as overemphasis on some of the criteria and thus magnifying or downgrading the statuses of some of the cases we analyse. As shown in Table 7.80 four additional criteria are used to magnify the effects of social environment on FWCC vulnerability of the financial systems under scrutiny. The results of hierarchical cluster analysis (HCI) are in Figure 7.7, which show that the magnification by the four additional criteria does not affect the results. Thus the results, that are the relative places of the financial system’s vulnerability levels, are stable.

Table 7.80: Criteria Used for Comparison with Additional 4 for Measuring the Stability of the Results

Criterion 1: Politics	Criterion 16: Complexity
Criterion 2: Technology	Criterion 17: Volume of Assets
Criterion 3: Society-Culture	Criterion 18: Legal and Justice Systems
Criterion 4: Economics	Criterion 19: Accounting Systems
Criterion 5: Corporate Environment	Criterion 20: Audit
Criterion 6: Social Relations	Criterion 21: Control and Management
Criterion 7: Ethics Education	Criterion 22: Business Ethics
Criterion 8: Belief of Afterlife	Criterion 23: Corporate Governance
Criterion 9: Entropy	Additional Criterion 24: Masculinity
Criterion 10: Ownership Structures	Additional Criterion 25: Power Distance
Criterion 11: Pressure to Markets	Additional Criterion 26: Uncertainty Avoidance
Criterion 12: Expectation of Markets	Additional Criterion 27: Individualism
Criterion 13: Efficiency of Markets	
Criterion 14: Long/Short Term Focus	
Criterion 15: Concentration	

Figure 7.7: Cluster Analysis Results with Additional 4 Social Criteria for the Test of Stability

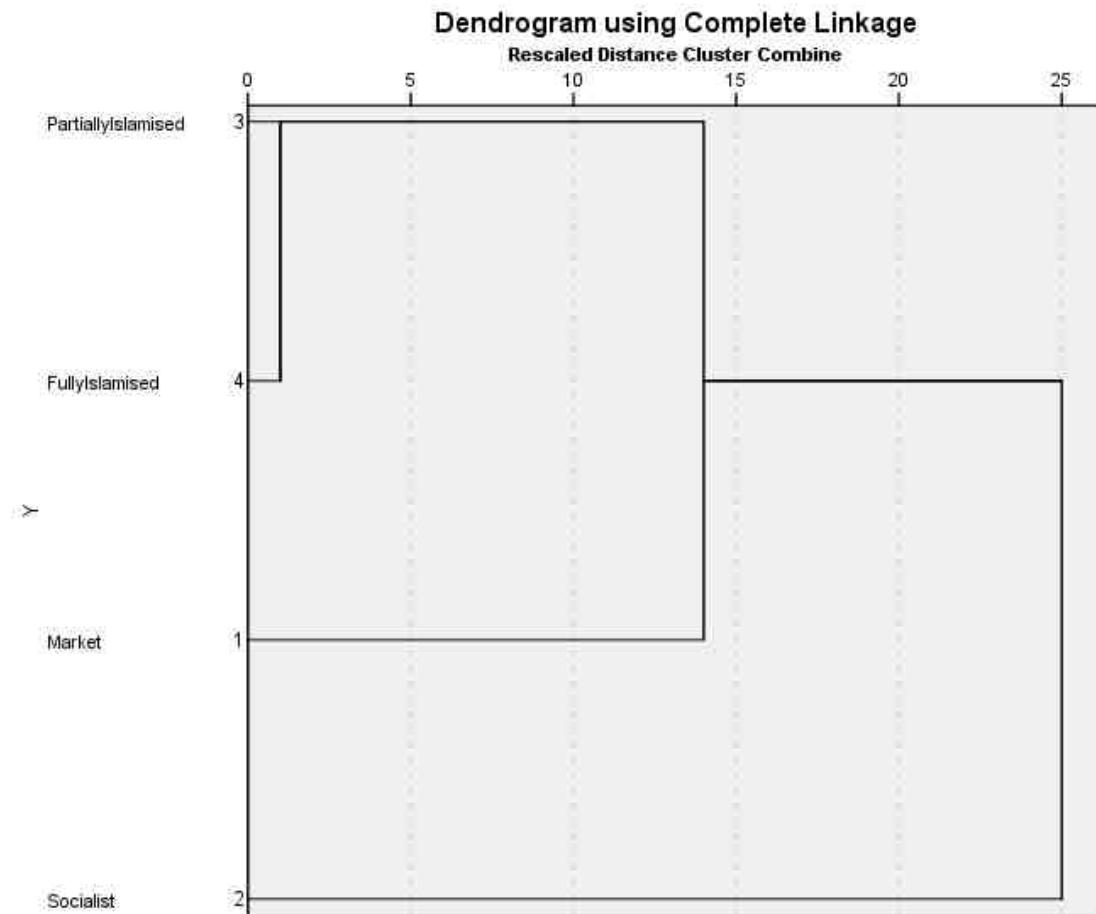


Table 7.81: Proximity Matrix for Hierarchical Cluster Analysis with Additional Criteria

Proximity Matrix				
Case	Matrix File Input			
	Market	Socialist	PartiallyIslamised	FullyIslamised
Market	,000	82,829	48,719	56,046
Socialist	82,829	,000	93,110	88,215
PartiallyIslamised	48,719	93,110	,000	14,275
FullyIslamised	56,046	88,215	14,275	,000

As a result, this part of the study proved that the comparative analysis of the financial systems would be flawed if financial systems are compared by using the arguments of the RCT which would equate the volume of the financial assets in a given financial system to financial opportunity in that financial system. For instance, such a comparison would consider two financial systems with the same volume of assets but a different level of density in the market. Such a comparison would also conclude that two financial systems have equal propensity towards financial white collar crime if they had the same volume of assets, ignoring the fact that they may have different levels of greater and immediate defensive spaces. In fact, two supposedly equal systems may be shown to be unequal under all 23 criteria presented in Table 7.77, especially when the comparison is pinpointed to certain financial crimes (*e.g.* competition crimes, tax evasion, fraud, manipulation, speculation *etc.*) instead of the ‘financial crimes’.

Thus, this study enriched and developed a rather blunt concept of opportunity in RCT to a level of almost a ‘theory of opportunity’ with many criteria, 8 of which are about the common effects of the environment of crime and can be used to compare other kinds of crimes while another 15 are specific to financial white collar criminality and may be adapted to the crime types under scrutiny in order to complete the ‘opportunity space of crime’¹⁹⁸ under rational choice.

As for the economic and financial systems compared in this study, one may conclude

¹⁹⁸ Please note that this is in fact a code group that belongs to our grounded theory which is developed as a result of this study, presented in Chapter 6. This Chapter tries to mature this code group in order to feed modern RCT to force a more complex analysis of opportunity. This approach, in effect, makes this study a development for RCT even if all the results of Chapter 6 were excluded.

that the main departing point between the financial crime propensity of the systems is the existence of a free market, because as Figure 7.7 shows the biggest distance exists between partially and fully Islamised economies and socialism. The distance decreases between the market system and socialism as the analysis is cut from a more macro level but still exists in a significant way. However this does not mean that we should abolish the free market in order to eliminate financial crime. In fact, Table 7.82 provides some insights about the solutions to financial crime as a public policy problem.

Table 7.82: Comparative Result of Financial Crime Propensity as Opportunity and Defence

Criteria	Market	Socialism	Partially Islamised	Fully Islamised
Opportunity Space Sum	16	34	37	53
Defensive Space Sum	14	23	22	31
Opportunity Space Distance Relative to the Best Theoretical System	$14 \times 1 - 16 = 2$	$14 \times 1 - 34 = 20$	$14 \times 1 - 37 = 23$	$14 \times 1 - 53 = 39$
Defensive Space Distance Relative to the Best Theoretical System	$9 \times 4 - 14 = 22$	$9 \times 4 - 23 = 13$	$9 \times 4 - 22 = 14$	$9 \times 4 - 31 = 5$

Looking at Table 7.82 it can be concluded that market and fully Islamized systems' positions are at the poles of the opportunity spaces for financial crime because the market economy is holding the worst opportunity position and the worst defensive position at the same time. Likewise, the fully Islamized system resides at both best opportunity and best defensive position against financial crimes.

The financial crime propensity of the market system can be improved by compromising some of the freedom, speed, complexity and volume of the financial markets and increasing its defensive spaces by, for instance, focusing on community improvement policies, social ties in the society, law, ethics, morality etc. Likewise, socialism's position can be improved by focusing on its *immediate defensive space*. Details of immediate defensive space are represented in Table 7.78 which is mainly about control. The Islamic system's position is strong but this does not mean that this position is worthy when we remind ourselves that the performance of the financial markets is negatively affected from this position. Moreover, merging our analysis

with the analysis in Appendix C, we may argue that the Islamic system's theory and application is not matching as well as capitalism and socialism's theories and application match because its theory dictates a distinct system (see Figure C.16 and relevant discussions in Appendix C) while its application converges (Figure 7.7) with modern systems.

In other words, Islamic economics and finance theorise a 'distinct' system compared to the dichotomy of full-control and no-control systems and the systems in between the poles of this dichotomy. This is indeed what is expected for a system that arose from a different ontology but the current application of Islamic economics and finance does not reflect this distinctive nature as is evident from the results of our cluster analysis. This is probably because the modern Islamic knowledge-base is a by-product of the mechanism of 'moral filter' in the knowledge development process that is used by contemporary Muslim scholars. The problem which has been uncovered by this study with the 'moral filter' is that it cannot accumulate below whatever is not put in from above. Theories of modern economics and finance when 'filtered' cannot produce anything dissimilar to modern economics and finance.

Thus, in many ways, this study proves that the use of 'filters', moral or otherwise, does not produce consistent results in the knowledge production process.

Chapter 8

CONCLUSION

“I am a mathematician.
What mathematicians do is that
they take 300 pages and condense it into one equation.”
Paul Wilmott, *Quant*

8.1. SUMMARY

In this concluding chapter the main findings of the research presented in this study are explained with the consequences and implications for the social sciences literature.

First of all, this research fulfils the aims and objectives¹⁹⁹ that are set out in the introductory chapter by developing a theory of financial white-collar crime, which was motivated by the observed gap in the literature as identified by Coleman (1987), Hagan (1989), Aas (2012) and many others.

In order to fill this gap, the terminological confusion over ‘crime’, ‘financial crime’, ‘white-collar crime’, ‘bounded rationality’, ‘multiple rationality’ *etc.* is sorted out first and put into a coherent group of local intentions and needs of the study. This effort has turned out to be a very productive one, because one of the most important processes of grounded theory is to create a purposeful terminology through continuous coding and recoding. We may argue that we unintentionally extended this critical process to the very earliest stages of our study and produced a terminology from which confusing concepts were weeded out in the first place even before the grounded theory process began.

After these clarifications, we compared the alternative perspectives on crime and deviance in criminology, and described the foundations of socialist and Islamic

¹⁹⁹ The aims and objectives of the study are presented in Chapter 1.

criminology, some of which do not even exist as a separate study area²⁰⁰ in either Western or Socialist and Islamic literature.

Then we categorized all the crime theories according to their usefulness in explaining financial white-collar crimes, picked rational choice theory (RCT) as the base theory in order to shorten the theory building process, and identified the shortcomings of this theory for a comparative analysis of extreme cases: i.e. its latent assumption that the motivation is ‘automatic’ (in the realization of an opportunity) and homogeneous across different individuals and different social-cultural environments. (Aas, 2012).

After finishing the literature review, we followed the method of ‘theory building by comparative case studies’ (Eisenhardt, 1989), hoping to solve some of the fundamental problems with RCT in general and in criminology in particular. Following the literature on grounded theory method, we used the most extreme comparative cases to expand the applicability of our theory to the widest possible intellectual area and generated very productive results. We produced a *complex*²⁰¹ mid-range theory of crime which fills important gaps in rational choice theories.

Lastly, we compared the financial systems according to their principles regarding economics and finance using some criteria suggested by Gregory and Stuart (1985: 12) and continued these analyses by comparing the financial systems depending on their white-collar financial crime propensity, using some criteria suggested by Punch (1996). In this latter comparison, we used some of the concepts we produced in earlier stages of our study: i.e. *greater and immediate opportunity spaces* as both positive and negative forces against and towards crime, as a complement to Punch’s (1996) criteria. This second analytical Chapter of our study generated the cardinal positioning of financial systems (relative to each other) according to their vulnerabilities towards financial white-collar crime propensity.

During the research process, which aims at generating a theory of crime, almost all of the branches of social sciences literature are scrutinized and theoretical comparisons are made. Incredible amounts of quantitative and qualitative data are processed. Five

²⁰⁰ Such as ‘socialist criminology’ and ‘Islamic criminology’, ‘alternative perspectives of crime’.

²⁰¹ According to Georgen (2010: 4) complex theories study social systems holistically and they “do not focus exclusively on one aspect such as the legal framework or compliance but look at the multiple interacting dimensions that together create the social ecosystem”.

years' long hard work on social sciences inevitably brought about many unplanned improvements in other theories in social sciences that touch on rational choice. These improvements are presented in Chapter 6 which includes improvements in (i) definition of 'financial crime', (ii) utility theory, (iii) theory of social stratification, (iv) theory of motivation, (v) rational choice theory, (vi) theory of environmental criminology, and (vii) theory of needs.

8.2. MAIN FINDINGS AND REFLECTIONS

The following section aims to position the findings of this research in the context of the relevant literature, which is done twice for each of the empirical results.

8.2.1 Reflecting on the Theoretical Implications

This study followed Eisenhardt's (1989) theory building methodology²⁰² by using comparative cases, and at the end of our study we reached one of the most productive results of the four possible²⁰³ alternatives of grounded theory research (Eisenhardt, 1989: 545): 'mid-range theory'. One of the most important characteristics of our theory is its *dynamic* nature of representing crime as a *process* taking place in the continuum of time²⁰⁴ and space within the sociological, administrative and legal outer environment and the inner environment of self-perception.

This feature of the resultant grounded theory is important in the context of current "insufficient" (Hagan, 1989) criminology theories because almost all criminology theories try to distinguish the criminal from the innocent. They are *discriminatory* but there is not much evidence that crime as a scientific concept has this feature, which is not assumed in this study because this study does not take criminality as a characteristic or absence of a characteristic in an individual, but takes criminality as a continuum, as a process at the end of which crime is a possibility for each and every one of the individuals in a given society.

As mentioned earlier, the most relevant theory to our grounded theory is RCT, which is criticized because of not articulating the function of *motivation*. When the

²⁰² Eisenhardt (1989) borrows much from the grounded theory methodology and thus the methodology used in this research can be considered under the umbrella of grounded theory literature.

²⁰³ The other three are concepts, conceptual frameworks, prepositions.

²⁰⁴ Coordinated to the hierarchical needs of Maslow (2010).

theoreticians did articulate it, they did so relatively later in the development of the theory but still with the assumption of automatic and homogenous motivation across extremely different individuals.

According to Gottfredson and Hirshi (1990: 87): “individual differences in the tendency to commit criminal acts ... remain reasonably stable with the change in the social location of individuals and change in their knowledge of the operation of the sanction system”. However, Aas (2012) proves that this approach does not enable a criminological theory to extend its validity across the borders of socialist or Islamic countries let alone all other variations. This approach is pervasive in the literature (*e.g.* Mehmet, 1999). Although some of the game theoreticians make minor references to variety in human rationality (*e.g.* the immaterial world), they often do so in a downgrading way. For instance Polak (2007) calls people with the emphasis on the utility dimension other than materially-dominant utility “stupid”, while informed about the studies which predict that these people comprise roughly 30% of the Western society.

These and many other hardships of using RCT for financial crime comparisons (especially for extreme cases) force us to find ways of overcoming or circumventing the principles, claims, assumptions, postulates of RCT by building a new theory of crime with a more capable, multi-dimensional base. We theorise that all dimensions effect all criminals in various ways but dominant-dimensions are more powerful in their effects. Norms, laws and regulations that are parallel to those dominant-dimensions are easier for the would-be-offenders to comply with but all the rationality assumptions of individuals are considered to be different in certain degrees and forms in other dominant dimensions. For instance, self-interested behaviour in a moral culture is severely criticized while it is ordinary in materially dominated cultures.

As a result of this research, a theorization is made as a threshold between `motivation` and `deviance`. The threshold is passed by hasty individuals; however, this rational choice (passing the threshold) is expected under the materially-dominant dimension only. That is, for another identical person who is in the identical situation but *under the domination of another dimension*, passing the threshold may not be rational and thus would not be expected until more severe inner and outer conditions emerge. Inversely, people committing financial crime under the effects of the socially-

dominant dimension for instance may pass these thresholds (despite their lower need gaps and haste) faster in environments that are under the effects of other dimensions, for instance, the materially-dominant dimension.

Many one-dimensional applications of RCT draw “heavily” (Tittle *et al.*, 2010) from Gary Becker’s (1968) “economic approach”. Nevertheless, Becker (1968; emphasis added) argues that “a useful theory of criminal behaviour can ... simply extend the economist’s *usual* analysis of choice”. But do not all the economists’ ideas running on a standard understanding of the economy? In Chapter 3, we showed that they are not. For instance, according to Zimbalist (1989: 10): “the approach of *homoeconomicus* will be analytically more limited in explaining the performance of planned economies than it is in reference to market economies”. Then, Becker’s (1968) understanding is relevant only in the market economy sphere of society because the other two major forms of economic knowledge have totally different understandings of extending the “usual” (Becker, 1968) analysis of choice. But what are those different understandings of rationality (or utility function to be more specific) in other economic systems, namely Socialism and an Islamic economy in this research?

Still, we confirm some of the parameters of RCT suggested by Becker (1968) and Cornish and Clarke (1986). Going beyond their conceptualization we give a detailed analysis of these concepts, determine their interrelations in a dynamic environment and identify their entry and exit points in the process of becoming a financial criminal along with their interplay with the macro socio-economic system.

Indeed, Cornish and Clarke’s (1986) approach is not completely different from this study. For instance the ‘readiness’ occurs after the evaluation of perceived solutions and these solutions are either legal or illegal and this part is placed under the ‘general needs’ step of the same process. Cornish and Clarke (1986) are obviously aware that despite needs being ‘general’ they are differently perceived and targeted by many, because all the individuals have different positions in relation to the fulfilment of those needs. There is no obvious disagreement between the model of RCT and the grounded theory produced as a result of this study. The involvement of the ‘needs hierarchy’ in our analyses is no exception, because under the ‘Background Factors’ frame, Cornish and Clarke (1986) enlist ‘sex’ and ‘class’ as social factors and they also mention the ‘general needs’ and use the phrase ‘middle class’. Thus, obviously,

Cornish and Clarke (1986) have a class based, materially unbalanced view of the society where there are society-wide, common, 'general' needs. We put these dispersed ideas in a better form and suggest a complex, relative, nonlinear, dynamic relationship between them.

In fact, many recent criminology theories and theoreticians use the common concepts and understanding of the society and crime motivation in very similar ways but use slightly different perspectives. Arguably we could begin our study by articulating the 'Strain Theory of Merton' (1938) and use the same concepts, arguments and mechanism to begin our study but would see no contradiction there either, because Merton (1938) uses very similar concepts such as 'means' and 'goals'. The crime, in Merton's (1938) view, is either shortcutting to goals or shortcutting for the goals, but failing or, while approaching the goals, using unapproved ways and failing. In this sense, the grounded theory that emerged as a result of this study does not contradict any of the crime theories but rather confirms and merges their arguments in a complex and relative way.

Indeed, the grounded theory constructed by this study recommends the replacement of the implicit fundamental psychological base of RCT. As mentioned in Chapter 6, RCT assumes that the 'incentive theory' is the correct base theory of rational choice; however, we deconstruct this view and reconstruct a new perspective, which takes the 'need theory' of Rollinson *et al.* (1998: 149) as the fundamental base of rationality, which makes better sense in showing the connections between the individuals' inner selves and outer environment.

Implicit assumptions which cause inconsistencies in RCT are identified in detail in Chapter 6 and there is no need to repeat them here but should be briefly mentioned as follows: we had better mention some of them as follows:

- (i) Definition of 'financial crime' is not based on *stable* definitions.
- (ii) Theory of crime is constructed on a static theoretical foundation despite the fact that criminality and/or deviant behaviour is a dynamic phenomenon.

- (iii) Theory of crime is constructed linearly and assumes a statistically perfect society in which one theoretical explanation fits all societies²⁰⁵.
- (iv) Theory of crime is constructed on one dimension which fits its linear perspective despite the fact that one kind of individual cannot be assumed in the postmodern, multicultural world.
- (v) Theory of crime is constructed on external stimuli and anomalies with no connection to the inner-selves of the agents nor their various needs and preferences depending on their circumstances.

Along with these side results²⁰⁶ about RCT, we produced many codes relating to crime in general and financial white collar criminality in particular. These codes and the relationships between them are depicted in Figure 8.1 and Formula 8.1

²⁰⁵ For a criticism of this paradigm see Aas (2012).

²⁰⁶ In fact these side results hold such a powerful explanatory power that their implications are more far reaching than the targeted results of the grounded theory we produced.

Formula 8.1: The Final Model of the Grounded Theory

$$C_A = \{ \{ [(C_A = \{ \{ [(I_p - A_p) + (F_p - A_p) \times I(t_p) \times |Ep_p|^{t/l}] - [(I_r - A_r) + (F_r - A_r) \times I(t_r) \times |Ep_r|^{t/l}] \times |H|^{t/l}] - G_p \} \times (OS_{IL} - GC) \} \times \{ (T - P)_1 + (T - P)_2 + \dots + (T - P)_m \} \}$$

C_A = Criminal Act

I = Ideal Self

A = Actual Self

F = Feared Self

Ep = Expected Probability of Ideal Self Coming True

t = Time

H = Haste

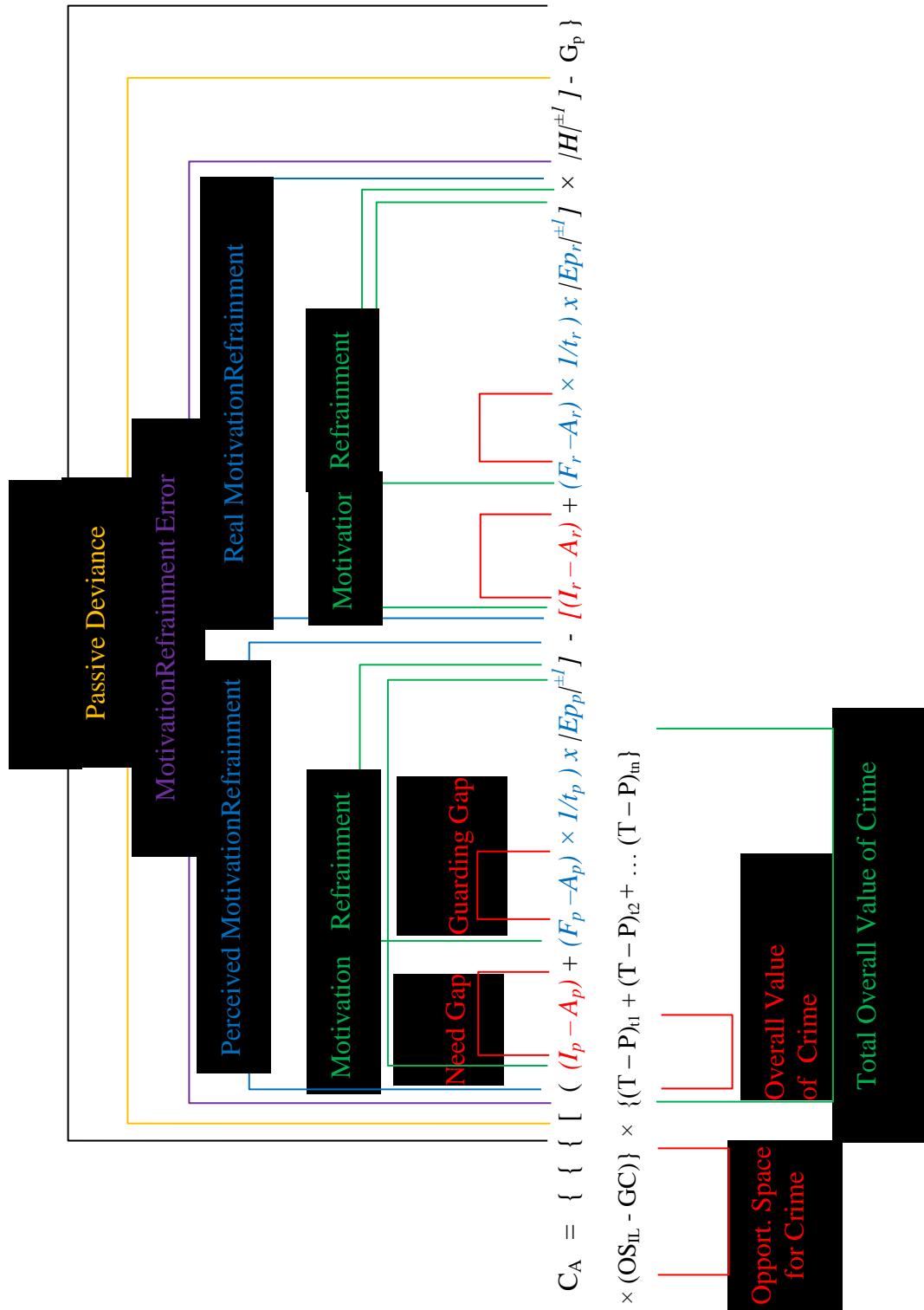
G_p = Passive Guardians

OS_{IL} = Illegitimate Opportunity Space

GC = Illegitimate Target Guarding Capability (of Active Guardians)

T = Perceived Target Value (Legitimate + Illegitimate + A-Legitimate)

Figure 8.1: Codes of the Grounded Theory on Final Dynamic Model



As Eriksson and Kovalainen (2008: 156) suggest, grounded theory studies are considered to be empirical studies:

Strictly interpreted, as the result of any grounded theory study, a generation of new theory should emerge as a process, irrespective of the field where the method is applied. That this new theory should consist of a set of plausible relationships proposed among concepts and sets of concepts is the outcome of the methods application. Therefore, it is possible to say that theory is an outcome of empirical analysis.

Confirming Eriksson and Kovalainen (2008), our inductive, positivist methodology handed us even more positivist results, with the possibility of putting all our codings, organized as concepts, categories, sub-categories, dimensions, into a formulation shown in Figure 8.1 and Formula 8.1 to show the interrelations and co-functioning.

However, presentation is made in both positivist (in Appendix A) and interpretivist (in Chapter 6) ways simultaneously in order to be more clear and explicit about a complex theory which is sensitive to initial conditions such as *haste*²⁰⁷ in the coding system of the study.

8.2.2 Reflecting on the Findings of the Comparative Analysis

In our second empirical analysis, based on our comparison of the economic or financial system according to the established categories of the new grounded theory, we produced the following matrix in Table 8.1, which depicts the financial white collar crime sensitivities of various financial systems according to 23 different criteria in four groups. These criteria are specific to financial white collar crime opportunity spaces but additional comparison on comparative criteria of general economic features of the compared systems are presented in Appendix C.

²⁰⁷ 'Haste' can also be considered as the *strange attractor* of the complex system the individual operates. Such fundamental concepts are named the 'core category' in grounded theory methodology.

Table 8.1: Results of Comparative Analysis

Criteria	Market	Socialism	Partially Islamised	Fully Islamised	Direction of Effect	Proximity of Effect
Politics	1	4	2	3	Opportunity Space	Greater Spaces
Technology	1	2	3	4		
Society-Culture	1	2	3	4		
Economics	1	2	3	4		
Corporate Environment	1	4	2	3		
Greater Opportunity Space Sum	5	14	13	18		
Social Relations	1	4	2	3	Defensive Space	
Ethics Education	1	4	2	3		
Belief of Afterlife	2	1	3	4		
Greater Defensive Space Sum	9	23	20	28		
Entropy	1	2	3	4	Opportunity Space	Immediate Spaces
Ownership Structures	1	2	3	4		
Pressure to Markets	1	3	2	4		
Expectation of Markets	1	3	2	4		
Efficiency of Markets	2	1	3	4		
Long/Short Term Focus	1	4	2	3		
Concentration	1	2	3	4		
Complexity	2	1	3	4		
Volume of Assets	1	2	3	4		
Immediate Opportunity Space Sum	11	20	24	35		
Legal and Justice Systems	1	4	2	3	Defensive Space	
Accounting Systems	4	1	2	3		
Audit	1	2	3	4		
Control and Management	1	4	2	3		
Business Ethics	1	2	3	4		
Corporate Governance	2	1	3	4		
Immediate Defensive Space Sum	21	34	39	56		
Opportunity Space Sum	16	34	37	53		
Defensive Space Sum	14	23	22	31		
Great Sum	30	57	59	84		

Our analysis suggests that the market economy is the weakest financial system against financial crimes, and Socialist, partially-Islamized, and fully-Islamized financial systems respectively follow the market system in that order in their propensity towards financial

crime. Socialism's position may look unexpected because when greater opportunity spaces are compared it appears as a less vulnerable system. This is indeed a reasonable expectation when we consider socialism emphasizing social bonds, and constantly educating the public according to those principles; however, its position deteriorates when the immediate opportunity spaces are compared. This is because this study is based on *white-collar* financial crime and in Socialism, white-collar people have greater opportunity spaces and less control of them is possible compared to other financial systems.

Table 8.1 shows that more criminals would be expected to attack financial systems in higher ordinal position. As shown, capitalism is at the top of the matrix, followed by socialism, but it should be noted that the score of the *greater opportunity space* of socialism in the matrix in Table 8.1, which is considerably low for the general public (14) and shares bottom place in the list with the Islamic system (13, 18) due to insignificant differences. However, this result changes when the environment approaches white-collar people (immediate opportunity space) in Socialism. In a similar vein, Table 8.1 also shows that the offenders attacking certain financial systems would experience a better defence from Islamic and socialist systems and worse defence from the market system as the defensive space approaches the individual (immediate opportunity space). Islamic systems provide a better defensive system compared to other financial systems.

A deeper look at the results of the comparative analysis also shows that the study pinpoints the critical areas of improvement. A given system may improve its position against financial crime's vulnerability by improving the weak performance areas. In this regard we may argue that without compromise in being an open system (*greater opportunity space*) and lessening the opportunities (*immediate opportunity space*), a market economy may improve its position by emphasizing the informal guardians such as the bonds of family, relatives, neighbours, colleagues, friends and ethics in the society.

Likewise, looking at the results, one may argue that socialism may improve its performance against financial white-collar crime vulnerability by being more tolerant of moral systems in the society and by forming strong control mechanisms on the ruling party, usually the Communist party.

The Islamic system's position on the other hand can be improved by improving their political and corporate environment, social relations and ethics education, shifting the balance of

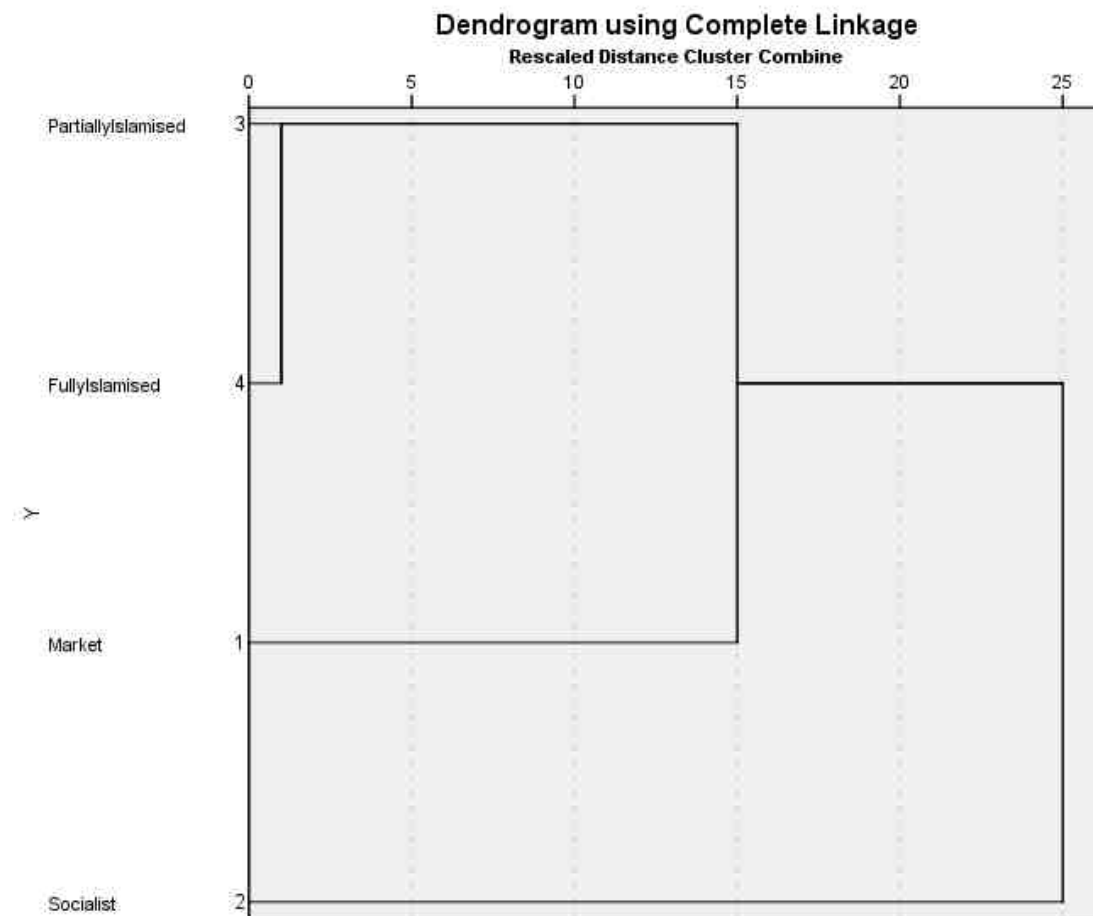
long/short term focus towards the longer term and improving legal and justice systems, accounting systems and control and management systems of finance.

Our analysis also gives a heuristic picture about certain concepts in finance and provides some hints about the consequences of their applications. For instance, we may see that as the system's *entropy* rises the level of vulnerability against financial white-collar crime rises. Similarly, the corporate environment in a market system is more competitive and more demanding, whereas it is moderate in a Socialist system as it is based on solidarity²⁰⁸. Islam is more vulnerable to financial crime in corporate settings than Socialist *kolhozs* (collective farms) because it allows the idea of business firm private property and corporations.

Nevertheless, Table 8.1 does not tell us about the meaningfulness of the distances between the compared financial systems. For instance if a is 1, b is 2, c is 3 and d is 7834 then the ordinal place of these four cases 1-a, 2-b, 3-c, 4-d does not represent reality unless we demonstrate the meaningfulness of the distances statistically. Figure 8.2 depicts such an analysis which is a product of hierarchical cluster analysis.

²⁰⁸ Campanella's 'City of the Sun' discusses this phenomenon decades before Marx and does not provide a convincing argument.

Figure 8.2: Dendrogram of Financial Systems' Vulnerability Levels against FWCC



As Figure 8.2 depicts, hierarchical cluster analysis, which successfully distinguishes socialism and the market system as distinct clusters at the most macro level but Islamic systems do not appear in this macro view. When we cut the dendrogram below 15 (left-most red line) we realise that partially and fully Islamized systems are not considered as distinct clusters. This level of clustering can be translated to mean that the distinction between partially and fully Islamised systems' vulnerabilities against financial white collar crime are not very meaningful. Thus, despite the fact that we reached an ordinal result we need to merge the results of partially and fully Islamised economies and re-present our results as follows:

Table 8.2: Refined Results of Comparative Analysis

Criteria	Market	Socialism	Islamic Economy and Finance	Direction of Effect	Proximity of Effect
Politics	1	4	2,5	Opportunity Space	Greater Spaces
Technology	1	2	3,5		
Society-Culture	1	2	3,5		
Economics	1	2	3,5		
Corporate Environment	1	4	2,5		
Greater Opportunity Space Sum	5	14	15,5		
Social Relations	1	4	2,5	Defensive Space	
Ethics Education	1	4	2,5		
Belief of Afterlife	2	1	3,5		
Greater Defensive Space Sum	9	23	24		
Entropy	1	2	3,5	Opportunity Space	Immediate Spaces
Ownership Structures	1	2	3,5		
Pressure to Markets	1	3	2,5		
Expectation of Markets	1	3	3		
Efficiency of Markets	2	1	3,5		
Long/Short Term Focus	1	4	2,5		
Concentration	1	2	3,5		
Complexity	2	1	3,5		
Volume of Assets	1	2	3,5		
Immediate Opportunity Space Sum	11	20	29		
Legal and Justice Systems	1	4	2,5	Defensive Space	
Accounting Systems	4	1	2,5		
Audit	1	2	3,5		
Control and Management	1	4	2,5		
Business Ethics	1	2	3,5		
Corporate Governance	2	1	3,5		
Immediate Defensive Space Sum	21	34	47		
Opportunity Space Sum	16	34	44,5		
Defensive Space Sum	14	23	26,5		
Great Sum	30	57	71		

Results of the comparative analysis as combined ordinal places (Table 8.1 and Table 8.2) show that the market system is the most distant financial system from Islamic finance and in terms of financial crime vulnerability they are poles of our analysis. Nevertheless,

hierarchical cluster analysis results depict Islamic systems as almost a sub-category of the market economy. Since market and Islamic systems were at the poles of the comparative analysis, there is only one explanation to these results: the distinction between Islamic economics and finance and market finance is being reduced but Islamic finance has valuable characteristics to elevate the market system into one of the strongest systems against financial white collar crime despite allowance of unlimited private property and the level of complexity of the market economy as a system.

Results of the comparative analysis of financial crime propensities of the financial systems clearly show that some of the most important assumptions of RCT are too simple for a complex phenomenon. For instance, there is no doubt that socialism offers the least financial opportunity (in the sense of RCT) compared to all other financial systems but the results of our comparative analysis depict that socialism is not at the end of the order because, just like motivation (as proven in Chapter 6), opportunity is not a homogenous concept, although it is assumed to be so in RCT. In other words, white-collar opportunity is not equal to the opportunity of a regular person in the society for financial crime.

8.3. SIGNIFICANT CONTRIBUTION OF THE STUDY IN GENERATING A GROUNDED THEORY

8.3.1 Contributions of the Grounded Theory

This study generated a relativist, complex theory of crime which works for financial crimes.

While discussing the ‘good theory’, Hale *et al.* (2005: 92) give some measures, which “include complexity, erudition, elegance, profundity, reflexivity, originality, resonance, and ethical stance”. It is the reader’s responsibility to evaluate but we think that our results are competent enough because our theory is logically consistent, inductive, parsimonious, and generalizable.

The significant contributions of this study can be listed as follows:

- (i) Putting financial crime in its primary and secondary environment of opportunities and restrictions.
- (ii) Demonstrating that opportunity is a very complex phenomenon and deserves a deeper analysis.
- (iii) Proving that crime motivation cannot be assumed automatically because motivation is

- a product of a dynamic motivation process.
- (iv) Proving that macro evidence on crime and financial crime does not follow the primary assumption of the rational choice theory that crime trends follow opportunity trends.
 - (v) Improving rational choice theory by solving the inconsistencies of the theory.
 - (vi) Merging micro realities about the individual and the macro world of the crime in the same theory.
 - (vii) Abandoning the discretionary look at the individual in the theory building process which is followed by the literature on crime despite being a debated issue in the humanities.
 - (viii) Developing a complex theory which deals with many diverse issues from a variety of fields of science, such as psychology, sociology, criminology, law, economy, finance, business, ethics, religion, morality, politics, international relations, public administration, culture studies, philosophy, anthropology.
 - (ix) Generating a dynamic theory which is capable of making predictions about ordinary people's future crime propensities and their aversion to crime prospectively.
 - (x) Improving 'utility theory', 'theory of social stratification', 'motivation', 'environmental criminology' and 'needs' in addition to 'rational choice theory'.
 - (xi) Providing both qualitative and quantitative demonstrations of the grounded theory developed as a result of this study and making the theory reachable by a preponderance of the research community.

8.3.2 Contributions of the Comparative Analysis

Additionally, the principles below regarding comparative analysis section of this study can, bluntly, be announced as the main findings of this study apart from the grounded theoretical analyses and results. The significant contributions of the comparative analysis of this study can be listed as follows:

- (i) Proving that crimes' importance and seriousness are not uniformly distributed.
For instance, theoretically, from their own perspectives, crime is very important and unexpected in socialism while it is mundane in Islam and expected in increasing amounts in capitalism.
- (ii) Evidencing that existence and survival of the definitions of crimes are relative between cultures;
Cultures' perception of crime differs and this is a serious problem for a

comparative study, but it is not a problem for this study because all of the economic systems we conduct our study on mutually codify the kinds of deviant behaviours we study as ‘crimes’.

- (iii) Demonstrating that both crimes and deviance are continuous variables and they change over time;
Even religious definitions of crime can be included in this group in special circumstances like stealing in a big famine.
- (iv) Showing that the socio-legal definition of crime is operable and valid with slight differences in all of the interested financial systems;
- (v) Evidencing that the notion of the ‘rational criminal’ is valid, operable and is suitable for the comparison of financial systems from the point of view of criminality;
- (vi) Showing that the theory that utilizes the notion of the ‘rational criminal’ has some inconsistencies and shortcomings;
- (vii) Demonstrating that the utility function has more than one-dimension because a universal scientific criminology theory must satisfy different motivational paradigms of various financial systems;
- (viii) Proving that the model of crime causality must be very complex because use of opportunity is not enough to explain financial crime;
- (ix) Demonstrating that the model of crime causality must be dynamic because the definition of crime is not only legally but also socially based;
- (x) Evidencing that financial crime researchers have to use qualitative data because quantitative data is either very scarce or unavailable to the researchers.

8.4. LIMITATIONS

Since criminology is an interdisciplinary field of study, it is unfortunately not possible to bring in all the expertise in all relevant scholarly disciplines such as psychology, biology, anthropology, economics, finance, politics, law, forensics, computing, mathematics, statistics, literature, history, religion, criminal justice, sociology etc. Therefore, the grounded theory developed in this study is far from being a complete theory, just like many similar social studies. However, it is an attempt showing the depth and breadth of theoretical formulation on the subject matter.

8.4.1. Limitations of the Grounded Theory

The theory developed in this does not explain crimes that are committed by people with socially or materially dominated utility dimensions nor does it explain crimes against property that are taking place in lower strata of the society. Our theory does not explain crimes that occur in relation to more than one utility dimension either.

On the other hand, the theory developed in this study is only applicable to offenders with full and bounded rationality. Nevertheless we recognise that there is a certain group of people in the society with '*idees fixe*' who do not act rationally despite the fact that they are not insane or mentally ill. We believe other utility dimensions may serve as a better ground to analyse their nature. Thus, we believe that further research will decrease the number of these irrational behaviours by putting them into rationalities of morally and socially dominated individuals.

According to the grounded theory approach, theory building ends when theoretical saturation is reached (Glaser and Strauss, 1967; Strauss, 1990) and we are confident about its saturation on financial white collar crime. However, if the time constraint were released, it is highly possible that we would reach saturation at even higher stages of our analysis by including more codes and more relations between the codes. Nevertheless, since every added complexity decreases the level of parsimony, saturation is always a compromise and the researcher has to stop somewhere.

We assume in our study that all the financial offenders are materially-dominated, that is they value material, monetary gain over social, moral and other unforeseen gains. These offenders are obviously more vulnerable to financial crimes, economic crimes, white-collar crimes and the like.

If people are not under the effects of one single dimension, or to put it more quantitatively, if the set-ups of the inclinations in all dimensions are closest to the means of all dimensions and if their haste/patience factor is close to zero, then, would-be offenders are not vulnerable to a specific type of crime and if they commit a crime it is probably by chance and depending on mere environmental circumstances.

However, if they are under the effects of one specific dimension and not others, this makes them vulnerable to the type of crimes that are specific to the dimension the would-be-

offender is under the effects of. Thus, people with materially dominant utility dimensions are more vulnerable to crimes that yield material gains.

Positivist results of this study²⁰⁹ do not suggest that equating certain numbers to the codes in the formula and reaching positivist conclusions about some individuals are possible. On the contrary, the purpose of the formula is to succinctly represent the relationship between the codes and to increase comprehension of the model produced in Chapter 6 and Appendix A.

8.4.2. Limitations of the Comparative Analysis

This study conducts a comparative analysis between the financial systems and presents a great deal of detail. Nevertheless, our comparison criterion, *opportunity space*, is a dynamicity phenomenon. Presenting more details was necessary but we had to invest our time and effort in relatively more important parts of the comparison; because of the limited space, it was not possible to give more details about all chronological parts of the cases.

Lastly, one of the most important limitations of the comparative results is the number of cases we use to depict Socialist and Islamic systems, but we tried to overcome this shortcoming by referring to the theoretical foundations of these financial systems.

8.5. RECOMMENDATIONS FOR FUTURE RESEARCH

Based on the research experience and the contribution of the study, the following future research related recommendations can be put forward:

8.5.1 Recommendations for Theoretical Development of Rational Choice Theories

The resultant grounded theory presented in this text has enough explanatory power to be expanded to explain other kinds of crimes in general and crimes against property in particular.

Further research can develop this ‘grounded’ theory into a ‘general’ theory of crime. By using other dimensions (*i.e.* social and moral), needs (*i.e.* moral and social needs) in other strata (*i.e.* lower and middle) of the society the codes of our theory can be increased in order to accommodate other types of crimes. To reach that level, first of all, the theory must be

²⁰⁹ Taking place in Appendix A.

extended to *low* and *mid-range* (non-white-collar) crimes against property and then by including these crimes in other dimensions a higher level theory of crime such as ‘*general theory of crime*’ can be reached.

Gottfredson and Hirshi’s ‘General Theory of Crime’ (1990) is one of the famous attempts to form a general crime theory, offering the self-control theory as a generalized theory that explains all individual differences and all acts of crime and deviance in all ages and circumstances (Akers and Sellers, 2004: 122). Indeed self-control theory was pretty bold in its claims but it received much praise and is empirically tested by Pratt and Cullen (2000), Grasmick *et al.* (1993), Vazsayi *et al.* (2001), Perrone *et al.* (2004). Still, a general theory of crime is another one of the discretionary theories and it is not a complex, dynamic theory²¹⁰. On the other hand, this social phenomenon is so complex that it waits to falsify whoever claims to be certain in social sciences. We trust that our theory bears an explanatory power that may be the core of a *general dynamic, relativist theory of crime* in the future. In this study, we used financial crimes to show part of the bigger picture the theory can explain. Integration of other crime types may form the general theory and allow criminologists to have a common discussion ground. Otherwise they have to offer safe, discretionary, retrospective theoretical solutions to crimes looking only through the eyes of victims and culprits.

Future researchers may use a multi-dimensional system which does not consider materially dominant utility to be the sole utility dimension even in wild capitalist societies, because even the most popular economics text books have realized that “after the careful calculation and comparison of the payoffs in terms of the decision maker’s goals ... they have found much evidence of behaviour that is inconsistent with economists’ **typical** rationally assumption”. (Baumol and Blinder, 2009: 92, emphasis added). Moreover, financial criminals are anomalies in some of these societies and are almost always materially-dominated.

A general theory is reachable by switching the utility function from the materially-dominated dimension to other dimensions such as morally and socially dominated dimensions. By doing so, criminologists may analyse other types of crimes within the same theoretical construct²¹¹. For instance, assassinations, hate crimes, terrorism, war crimes *etc.* can be theorised in the

²¹⁰ See Chapter 4 for more explanation.

²¹¹ This is possible even by disregarding the fact that the utilities of the would-be offenders are multidimensional because the structure of the theory allows all the Eurocentric knowledge generated over the years to take part in this multidimensional structure of the grounded theory, because it does not force one utility functions to take into account other means of rationality (e.g. ethical decisions in the context of the decision-making of *homo-economicus*).

same framework of this study by using the morally-dominated dimension, while rape, murders, racist crimes, political crimes *etc.* can be analysed by using the socially dominated dimension. This does not necessarily require a clear categorization of the crimes depending on their dominant dimensions nor positions in the hierarchy of needs and the relevant distribution to compare with the society's dynamic distribution, because there is interplay, interaction between all of these dimensions and concepts. Thus, further research is necessary to discover these time, dimension and distribution mappings of crimes, because these analyses come with the assumption that bluntly, all the crimes are indeed members of a group of crimes corresponding to a certain place in the needs hierarchy, dominant dimension and relevant distribution.

For instance, the lowest level in the hierarchical needs of Maslow is the need of basic living and shelter; and putting such a need-fulfilment aim as the ideal-self for a given individual we may start analysing street crimes against property, then climbing the ladder of the hierarchical needs we may analyse the crimes of labour, crimes of employment, corporate crimes and eventually the white-collar crimes. So, crimes against property can be added to the code family of this research by focusing on the same material dimension but this time on lower strata of the society and relevant needs there²¹².

Likewise, focusing on social and moral dimensions and switching the focus from lower to upper strata of the society, other types of crimes can be coded and merged with an extended²¹³ coding system of the grounded theory generated by this study. In the final analysis, a multi-attributed utility function can be used to code the crime types that exist at the interplay of material, moral and social dimensions before additional dimensions are discovered to complete the coding family of crime. The final picture would be very complex but very neat and agreed-upon theory that is ready for quantitative analyses such as game theory with multi-attributed utility function.

It was not possible to accomplish this during our research process ;“[b]ecause of the nature of the research, that is time-consuming and set within a particular context, it is usually not possible to generalize from a grounded theory study. Instead of referring to a theory, researchers will refer to a development of a substantive model... This is regarded as theory

²¹² Appendix A gives some hints about how to merge future researchers' coding with the code family of this research in order to form a general theory of crime.

²¹³ See Appendix A, Section A.1.2.

that is bounded by and particular to the arena in which the study took place” (Colls and Hussy, 2009: 157-158). This is why many further studies are needed to criticize, empirically test and improve the theory generated by this study.

8.5.2 Recommendations for Research on Comparative Crime Propensities

As for the comparative analysis, another study may be conducted to compare not only the financial systems but also political, geographical, anthropological, national, cultural systems according to the various vulnerabilities, using the codes of our grounded theory in full detail. Since such further studies are supposed to produce a one-shot picture with very restricted dynamicity in time, an index could be produced by institutional researchers, and through statistical comparison such as time-series analysis, the public may compare some of the agents according to certain codes we suggest in our grounded theory.

For instance, in the context of financial crimes, GDPs of respective countries can be used as the quantitative representation of the code ‘real actual self’ of system A or country ‘a’ while their first one positive standard variance away GDP level can be quantitatively equated to ‘ideal real self’ of system A or country ‘a’. In a similar vein, the current debt of system A or country ‘a’ can be taken as the haste of the case under scrutiny. Quantifying other codes by various data available to researchers it is possible to approximate to the real, refined relationships between the variables, codes produced by this study.

8.6. EPILOGUE

This study aimed at discovering which financial systems were the strongest and weakest against financial white collar crime, but during the research process we realised that it was not possible to conclude the research before having a sound theory of crime which has *comparatively rational* answers to the following question, as to ‘why do people commit financial white collar crime?’. This is why our extended research included developing a grounded theory in financial white collar criminality based on rational choice with the objective of determining the propensity of the identified economic systems for financial crimes and the also determining the process of criminality through a number of criteria in each economic and financial system.

As the foundational chapters in the literature review chapters show (Chapter 2, Chapter 3, Chapter 4) this study formed a broad and solid comparative base for developing a theoretical

framework.. For instance the correct definition of ‘crime’ allowed us to continue our research in all financial systems and the proof that the most important arguments of rational choice theory were not reliable in financial white collar criminality provided the research with a confident, non-hesitant approach to the theory building process. As the research methods chapter (Chapter 5) shows, this research benefited from a reliable and tested scientific method of collecting and processing data. Finally, as the theory development presented in Chapter 6 demonstrates, this study reached a dynamic and relative theory of financial crime which has an explanatory power to embrace even the most extreme financial environments. The applications of its environmental arguments were used in a comparative analysis of financial systems and as Chapter 7 shows this study identified the strongest and the weakest financial systems against financial white collar crimes. Chapter 8, finally, reviews and summarizes the results of both comparative analysis and the grounded theory before locating the findings of the study in the context of the relevant literature. Chapter 8 also describes the limitations of the findings and makes some recommendations for future researchers who would like to extend the results of this study.

Thus, this study fulfilled its aims and objectives in a responsible way, which was not initially expected to be with such difficulty, volume, and time-span.

Finally, this study lasted five long, hard years with a massive amount of qualitative and quantitative data which was processed at a speed causing the researcher to wear glasses and wrist aid because of continuous typing and reading. The results could have been much clearer, shorter and better, because readers deserve it, but still the researcher is happy to be writing these final sentences, because he thought many times during the research process that he would never have enough endurance to see them. However, in the final analysis, this study has produced a crime theory which can survive in the postmodern, multi-modern, multi-cultural, global, diverse world. Since it is capable of making prospective decisions about regular, non-criminal people and can produce changing, dynamic decisions based on many parameters about the individual and his/her environment it is unique in many ways. It does not solve all the problems with the rational choice theory but it identifies them and provides many channels to be developed into a mature, firm theory of rational choice.

Appendix I

CODING PROCESS of the GROUNDED THEORY

I. 1 INTRODUCTION

It should be mentioned at the beginning that the material, process and coding provided in this chapter goes beyond this research, and is therefore located as an appendix. In addition, due to the word limit, it was not possible to present this as part of the main text.

In this Appendix, we present the coding process of the grounded theory in complete detail. The results of the theory given in Chapter 6 in a discursive manner are represented by positivist formulations and denotations, as is habitual while presenting the quantitative analysis results. The parsimony of the resultant theory is evident in this kind of representation, as the interactions between various codes are also clearer this way. Nevertheless, even with the formulations it may not be easy to follow all the concepts in the formulae before getting acquainted with the concepts in the first place. Therefore, we present them more explicitly with the implications in the main text in Chapter 6.

Probably a better presentation would be possible by merging the discursive and quantitative explanations of Chapter 6 and Appendix I (this Chapter), however, the page limitations of the main text forced this separation. This makes Appendix I a crucial read in order to fully understand the resultant theory of this study. Conceptual flow of the 'codes' is preferred in Chapter 6 because the close relationships of some of the codes only appeared at a late stage of the production process. Those distant 'codes' appear in their original 'order of emergence' in this Appendix and this may increase comprehension by reinforcing the meaning of the codes in different conceptual places and with different functions.

I.2 POSITIVIST REPRESENTATION OF THE GROUNDED THEORY

Before giving all the details of the formal coding process step by step, we had better give the end results of the coding process so that the reader may have a complete quantitative picture of the theory.

Thus, beginning with the final formula, we first briefly explain some of the main parts of the emergent theory before revealing the details of the building process by means of the ‘codes’, following the grounded theory processes. The codes are explained, beginning with the simplest concept, in the following parts. This macro explanation and summary at the beginning of this Appendix may encourage a deductive expectation process at the time of the beginning of the reading as well.

I.2.1 Final Results and the Fundamental Relationship between the Concepts and Categories

Chapter 6 presented many of the ‘important’ codes of our grounded theory in a qualitative way, in a verbal fashion. Nevertheless, the methodology produces a positivist code system. In this Appendix we present those codes following the order of the knowledge generation process. Therefore, details and definitions of all the ‘concepts’, ‘categories’, ‘sub-categories’, ‘dimensions’ *etc.* of these ‘important’ codes mentioned in Chapter 6 and some additional ones are explained in full detail in this Appendix I.

Readers can also follow the production process of the grounded theory in order to check, confirm, review, control, improve even the smallest steps of the knowledge generation process. In many ways, this Appendix shows the intellectual, cognitive style, the *inductive* reasoning of the researcher as well, and allows the research community to make consistency checks.

A taste of the positivist results is included, below, in this initial part of the Appendix where only some of the later stages of the quasi-positivist representation of our analyses are presented so that general depiction can be downsized. The results are presented only until the code ‘*deviance*’ because this is the main aim of the second question, but the theoretical findings that go beyond this point are also presented in the latter parts of Appendix I, so that the reader can get a full picture of the complete process of financial white-collar crime including ‘*confidence*’, ‘*total return*’ and ‘*total*

loss of crime.

Let us now begin with '*deviance*'. Our theoretical analyses suggest that '*deviance*' is a 'motivation' in 'haste'. However, motivation is a positive word and a positive concept. One may have high motivation and it is something to appreciate. Even if one's expectation of reaching an 'ideal self' is very low this does not make him/her a criminal but maybe a loser or a winner in a *longer* time in the material world.

However, if someone is in 'haste' that is a problem that a new parameter may change in the equation towards '*deviance*'. As the level of haste increases the likelihood of committing crime increases, however if there is no (zero) haste there is no crime only when the patience of the offender is high, because then he/she has enough time to reach his/her ideal self in the distant future. However, the intimacy of the 'vulnerable target's value' is exempt from this rule and effective especially when the value is enough to bring the individual to a higher and distinct status²¹⁴ in the society.

Nevertheless the effects of other dimensions are excluded here for the sake of parsimony. Their dynamic effects may change the circumstances. For instance people may prefer to change their 'dominant utility function' in the course of the deviance process proposed by this research.

In the following part the positivist results of the grounded theory developed by this study are presented in a reversed order. Firstly, the highest order conceptual syntheses such as *deviance* and *motivation* are presented. They emerged in an inductive manner, as small parts of an unknown whole, but they were synthesized to form the wholes in various orders. Nevertheless, the correct, inductive order is presented after the presentation of the bigger picture, the macro results, as well. The first macro level code is 'deviance' with two distinct categories: 'passive' and 'active' deviance.

1.2.2 Passive and Active Deviances

We may consider *deviance* in two different forms as well: *Passive* and *active deviance*. *Passive deviance* is only the crime disposition. If all possible *passive guardians* are removed (*e.g.* offender moves to another country with very few *passive guardians*), *passive deviance* shows only the inclination of the would-be offender.

²¹⁴ Usually one (linear or nonlinear) standard variance (depending on the circumstances of the societies) away from the current position.

Active deviance on the other hand is the *deviance* after the effects of *passive guardians* such as the morals, pressures of family, friends, laws, regulations *etc.* and suggests a criminal act. We expect crimes in short time periods from the people with high ‘active deviance’.

While *passive deviance* shows only psychological disturbance and inclination to crime, *active deviance* shows the readiness, preparedness for opportunities. As a result of our grounded theory methodology, the code *passive deviance* can be represented as a relationship between the codes *motivation* and *haste* as seen in Formula I.1 implicitly and explicitly.

$$Deviance_{passive} = Motivation_{error} \times Haste^{\pm 1}$$

or

$$Deviance_{passive} = (Motivation_{perceived} - Motivation_{real}) \times Haste^{\pm 1}$$

Formula I.1: Passive Deviance²¹⁵

$$D_{pass} = (M_p - M_r) \times H^{\pm 1}$$

or

$$D_{pass} = [(I_p - A_p) \times 1/t_p] \times Ep_p^{\pm 1} - [(I_r - A_r) \times 1/t_r] \times |Ep_r|^{\pm 1} \times |H|^{\pm 1}$$

where *H* is ‘haste’ and represents offenders’ calculation error between his/her ‘perceived’ and ‘real actual selves’, when positive we call it ‘impatience’ and when negative ‘patience’.

Following the results of the grounded theory methodology, the code ‘motivation’ can be presented as a relationship between the ‘need gap’, ‘time’ and ‘expectations’ of reaching the ‘ideal self’. Since the code ‘need gap’ is represented as another sublevel relationship between the ‘ideal self’ and the ‘perceived actual self’ which are denoted by ‘*T*’ and ‘*A_p*’ respectively we use these sublevel codes to represent ‘need gap’. ‘*M*

²¹⁵ Please note that this is only the positive side of the ‘motivation’ and does not give a realistic picture without ‘refrainment’.

denotes ‘*motivation*’, ‘*t*’ denotes ‘*time*’ and ‘*Ep*’ expectation or ‘expected probability’; the relationship between them is shown below. In this relationship, $Ep = 1$ when the individual’s experience, education, training and other abilities and capabilities are on a par with the average person in his/her position in the same society and it is positive when above average and negative when it is below average. Thus, as the experience, training, education level or other similar abilities and qualities of the individual increase, his/her speed and likelihood of reaching his/her ideal self in a reasonable time increase.

In the formulation of perceived motivation below,

$$(M_p = ((I_p - A_p) \times 1/t_p) \times |Ep_p|^{\pm 1})$$

perceived ‘*ideal self*’²¹⁶ is the financial position, financial status, the individual would like to be at; ‘*actual self*’ is the current financial position of the individual²¹⁷, perceived ‘*time*’ (usually relatively less than reasonable time) is the average time-span between the current and future financial positions and perceived ‘*expected probability*’ is the individual’s own likelihood of reaching his/her ‘*ideal self*’ by using his/her capabilities, abilities etc. such as education, training, experience related to his/her current financial position. Perception of expected probability is also relatively higher compared to an average person in the same socio-economic position.

Similarly, real motivation draws a more realistic situation of the individual by using parameters that are free from perception errors which are measurable by consulting the relevant social environment of the individual. In the formulation of real motivation below:

$$(M_r = ((I_r - A_r) \times 1/t_r) \times |Ep_r|^{\pm 1})$$

Real ‘*ideal self*’ is the financial position the individual would realistically like to be in, real ‘*actual self*’ is the current realistic financial position of the individual, real or reasonable ‘*time*’ is the average time-span between the current and future financial positions and real ‘*expected probability*’ is the individual’s likelihood of reaching his/her ‘*ideal self*’ by using his/her capabilities, abilities etc. such as education,

²¹⁶ This is usually relatively higher than the average person’s position in the same situation because it includes perception errors.

²¹⁷ This is also considered to be better than the average person’s position in the same situation because it includes perception errors.

training, experience related to his/her current financial position. Real expected probability can be measured relative to the people with the same or similar positions.

'*Refrainment*' is the reverse of '*motivation*'. Since the positively motivating factors are different than the negatively motivating factors of crime (*i.e.* fear avoidance), separate concepts are necessary but these concepts are indeed two sides of the same phenomenon. *Refrainment* as a formal code in our grounded theory represents a synthesis between the codes *actual self*, *feared self* and the *expected probability*. Let us denote refrainment with '*R*', feared self with '*F*' and expected probability with '*Ep*'. The relationship is depicted below:

$$R = ((F - A_p) \times 1/t) \times |Ep|^{\pm 1}$$

where feared self (under normal circumstances *e.g.* normal distribution of wealth) is the financial position, the subordinates (*e.g.* in a society with normal distribution of wealth one standard variance below the individual's financial position) of a certain individual hold, and where the individual is likely to drop onto, when he/she repeatedly fails to fulfil the requirements of his current financial position²¹⁸. *Expected probability* is the probability of the realization of the *ideal or feared self*. It is positive when it denotes the expectations of the ideal self and when negative it denotes the negative expectations of dropping onto the *feared self*.

The difference between the motivations with perception errors and without perception errors gives us the risky, exaggerated amount of the regular motivation. This part is important in deviance because it puts individuals in a vulnerable situation. Especially in times of 'haste', need, urgency, the amount of crime vulnerability increases substantially. Indeed there are criminological schools focusing only on this parameter.

As for deviance, '*active deviance*' is what we usually mean by deviance, that is, somebody with all the inclinations and intentions, despite the *passive guardians*, towards the forbidden *targets* and behaviours.

Offenders are under negative and positive forces in relation to financial crimes. As motivational forces overcome the forces of capable guardians, mere existence of vulnerable financial assets would produce more delinquency. However, if

²¹⁸ Usually failing to achieve the legitimate targets such as salary *e.g.* by means of bankruptcy.

motivational negative forces and guarding positive forces are balanced, then mere existence of financial opportunity would not produce financial crimes.

Individuals do not have automatic crime motivation. People are under the influence of both *need fulfilment* and *fear avoidance*²¹⁹ emotions, and motivations as regular motivations and deviance motives cannot be automatically assumed for every individual in the presence of financial opportunity. Indeed, this outlook assumes a bad human nature, when science's initial position must be that it is a balanced nature, which can either be bad or good depending on the circumstances.

The inductive procedures of the grounded theory suggest that the codes '*motivation*', '*refrainment*', '*haste*' and '*passive guardians*' (with all their sublevel codes and relationships) can be synthesised as an upper level code, as '*active deviance*'. Nevertheless, there is another prior synthesis we need to mention. That is the code '*MotivationRefrainment*' (*MR*) which stands for the relationship between '*motivation*' and '*refrainment*'. Let us denote '*active deviance*' as '*D_{act}*' before we link all of these relationships in Formula I.2.

$$D_{active} = \text{MotivationRefrainment} \times \text{Haste} - G_p$$

Formula I.2: Active Deviance

$$D_{act} = [(MR_p - MR_r) \times |H|^{\pm 1}] - G_p$$

or

$$D_{act} = [((M_p + R_p) - (M_r + R_r)) \times |H|^{\pm 1}] - G_p$$

or

$$D_{act} = [[(I_p - A_p) + (F_p - A_p) \times I/t_p] \times |Ep_p|^{\pm 1}] - [(I_r - A_r) + (F_r - A_r) \times I/t_r] \times |Ep_r|^{\pm 1}] - G_p$$

It should be noted that in formula I.2 'no-motivation' and thus 'no deviation' is

²¹⁹ e.g. such as losing the current socio-economic status and the accumulated wealth by bankruptcy, excessive risk taking *etc.*

possible (e.g. *ideal self* = *actual self*); ‘no-refrainment’ (e.g. *feared self* = *actual self*); and ‘no-MotivationRefrainment’²²⁰ are also possible (e.g. *ideal self* = *actual self* = *feared self*) in this theory, which is capable of theoretically spanning diverse human behaviour. Again, negative values are also possible for both ‘*need gap*²²¹’ (i.e. when *ideal self* < *actual self*) and ‘fear gap’ (e.g. *feared self* < *actual self*) which can explain avoidance as well as inclinations to crime.

This theory also uses codes attached to the individuals’ inner selves (e.g. ‘H’) and their relative positions in the society (e.g. ‘Ep’) simultaneously in the same theoretical setting and it is distinctive in this sense.

The theory also allows comparisons between very different social settings but since the focus of this study is FWCC, we assume that all individuals we deal with have their ‘actual selves’ > ‘*ideal selves*’ and their ‘actual selves’ < ‘*feared selves*’, and therefore:

Formula I.3: MotivationRefrainment

$$MR = M + R$$

or

$$MR = ((I - A) + (F - A)) \times I/t \times |Ep|^{\pm 1}$$

I.2.3 Crime Motivation and Act of Crime

Finally, we can introduce two of the upmost inductive syntheses of this study: ‘*crime motivation*’ and ‘*act of crime*’. These codes unite more than ten different sublevel codes and represent their relationships with each other. ‘*Crime motivation*’ is different than ordinary ‘*motivation*’ and it is directed towards the ‘*illegal targets*’. As a result of our grounded theory process, the code ‘*crime motivation*’ can be presented as a

²²⁰ From a philosophical standpoint the implications of the relationship no *motivationrefrainment* offer a behavioral position which corresponds to a reasonable person in some societies who truly appreciates whatever he/she presently has and does not fear the possible risks of the future. For instance, theoretically, in a hypothetical communist society with a parallel, linear line of wealth distribution there would be no *motivationrefrainment* (MR).

²²¹ Although such behaviors are not well known in societies with materially dominated utility functions, in societies with dominations in other dimensions of the multidimensional utility functions they exist. Buddhist monks according to whom the meaning of life itself is suffering could be an example.

relationship between the codes ‘*active deviance*’ and ‘*opportunity spaces*’ as seen in Formula I.4.

$$Crime\ Motivation = Deviance_{active} \times Opportunity\ for\ Crime$$

or

Formula I.4: Crime Motivation

$$CM = D_a \times O$$

The synthesis of ‘*crime motivation*’ and ‘*target vulnerability*’ as the upper level code, ‘*act of crime*’, is given in Formula I.5. Act of crime is the final, accumulated prediction about the criminal act, after all the information about the offender, victim, target, socio-cultural environment and immediate and greater opportunity spaces are analysed and synthesized. All other codes indeed are prior forms of information gathering and ‘*act of crime*’, processing all of this information gives a prediction about specific individuals’ and/or circumstances’ deviance or the deviance of hypothetical situations. Details of target value are presented in the following parts of this Appendix as well.

Formula I.5: Act of Crime

$$C_A = C_M \times TV$$

where

$$C_A = Act\ of\ Crime\ and\ TV = Target\ Vulnerability$$

Although very simply explained, with very few codes for now, the complexity of their structure can be observed throughout this Appendix, and the ‘*opportunity space*’, which includes arguments we presented in Chapter 6 about the non-normal and normal socio-economic distributions’ effects on crime deviance is explained in detail in the later parts of this Appendix as well.

I.3 STRUCTURING THE CODING

As Glaser (1978: 70) and Strauss (1990: 33) argue, in grounded theory research, the labels of the codes can be derived from a variety of sources like interviews, literature, informants, NVIVO codes *etc.* In our research, we use the numbering of the section of this Appendix and assign certain ‘names’ to all the codes uniquely as the formal labelling procedure of our coding process. Thus, all the concepts as a product of this study have both the *numeric code* of their time place in the continuous process of grounded theory and the *verbal code* to show their place in the overall meaning of what the quantitative formulations stand for. We use those labels after explaining (Colls and Hussy, 2009: 179) them, but some of the explanations are put in the main text (especially in Chapter 6) in order to eliminate repetition.

There are certain principles to follow while coding in grounded theory research, in order to avoid confusion: For instance “labels with technical content or unfamiliar jargon can cause problems of interpretation to readers outside the field” and “when common terms are used as codes; sometimes readers can be biased by a prior knowledge or understanding of a term which conflicts with or does not reflect what is intended by the researcher” (Colls and Hussy, 2009: 179). We tried to eliminate such confusion at the expense of more space. Thus, the definitions of ‘crime’, ‘white collar crime’ and ‘financial white collar crime’ could be some of the examples about which substantial explanation is made in Chapter 2.

I.3.1. Phenomena

The first procedure in building a grounded theory is determining the primary phenomenon (Strauss and Corbin, 1998: 75). In our study, we scrutinize primary phenomena of ‘*crime*’ and ‘*finance*’, better to say, ‘*financial crime*’.

‘*Crime*’ is an umbrella term for financial crime in this study and because it limits the boundaries of this research let us attach the first numerical code of ‘I.3.0’ to the verbal code ‘*crime*’. Then, ‘*financial crime*’ in this universe of ‘*crime*’ could be taken as the first code from the type of *phenomenon* of this study with the numerical code ‘I.3.1’.

I.3.2. Concepts

There are mainly four concepts in our study, the first three of which come from the rational choice theories: ‘*motivation*’, ‘*targets*’ and ‘*guardians*’. We include the ‘*environment*’ in this group of the main concepts²²² after reaching the comparative analyses in our study because the different environments of the different financial systems affect the crime rates.

Thus, the numerical codes of ‘*motivation*’, ‘*guardians*’, ‘*targets*’, ‘*motivation/refrainment*’, ‘*crime motivation*’, ‘*act of crime*’, ‘*environment*²²³’, are ‘*I.3.4.1*’, ‘*I.3.4.2*’, ‘*I.3.4.3*’, ‘*I.3.4.4*’, ‘*I.3.4.5*’ and ‘*I.3.4.6*’ respectively. In order to save space, in the rest of the Chapter the numerical codes are not explicitly matched but can be assumed as the first code attached as the first additional numbering to the title number where *I.3.0* stands for the universe of the study, *I.3.1* stands for the *phenomenon*, *I.3.2* for *concepts*, *I.3.3* for *dimensions*, *I.3.4.X*²²⁴.1, *I.3.4.X.2*, ..., *I.3.4.X.n* for *categories* (e.g. ‘positive motivation’) and *I.3.4.X.Y*²²⁵.1, *I.3.4.X.Y.2*, ..., *I.3.4.X.Y.n* for *properties* (e.g. *ideal self*) *I.3.4.X.Y.Z*²²⁶.1, *I.3.4.X.Y.Z.2*, ..., *I.3.4.X.Y.Z.n* for *subcategories*²²⁷ (e.g. *perceived actual self*).

All the codes after the code *I.3.3* (dimensions) are considered to be under the ‘*material dimension*’ and not mentioned after the coding procedures after the dimension level but assumed to be under that dimension. However, for the future research, all of the codes after this level can be taken as *I.3.4.U*²²⁸.X.1, *I.3.4.U.X.2*, ..., *I.3.4.U.X.n* for *categories* (e.g. ‘positive motivation’) and *I.3.4.U.X.Y.1*, *I.3.4.U.X.Y.2*, ..., *I.3.4.U.X.Y.n* for *properties* (e.g. *ideal self*) *I.3.4.U.X.Y.Z.1*, *I.3.4.U.X.Y.Z.2*, ..., *I.3.4.U.X.Y.Z.n* for *subcategories*²²⁹ (e.g. *perceived actual self*)

²²² We also use the *offenders* and *victims* as concepts but in order not to compromise parsimony we only mention the main characteristics of these concepts.

²²³ Because of space limitations, the codes related to ‘environment’ could not be presented in this study in full detail but the researcher will present these codes in a dynamic formula in further research.

²²⁴ The ‘X’ stands for the *concepts*

²²⁵ The ‘Y’ stands for the *categories*

²²⁶ The ‘Z’ stands for *properties*.

²²⁷ This *type* of code does not appear in the foundational literature of grounded theory but it was necessary for this study to develop an additional type of code as ‘*subcategory*’ in this study in order to both fulfill the detail level of the theoretical construct and to allow expansion of the study to further detail levels by the inclusion of the additional type of coding such as ‘*properties of subcategories*’.

²²⁸ U stands for utility ‘dimensions’ such as ‘material’, ‘social’ and ‘moral’.

²²⁹ This *type* of code does not appear in the foundational literature of grounded theory but it was necessary for this study to develop an additional type of code as ‘*subcategory*’ in this study in order to

where U stands for specific dimensions. For instance $U=1$ for material, $U=2$ for social, $U=3$ for normative (moral) $U=4$ for an unidentified dimension.

I.3.3. Dimensions

Although the appearance of dimension is at the later stages of the grounded theory building in formal procedures its earlier appearance at the presentation of the theory is considered to be useful in order to provoke a better and smoother comprehension of it. Besides, the use of the term ‘*dimension*’ in the sense of ‘utility dimension’ of both Benthamian and non-Benthamian²³⁰ senses is valid in this study as well. Earlier use of dimension as a more macro type of coding makes sense for this research. In fact, dimensions are always one of the most macro level categorisations, after which all other factors specific to a certain dimension may dramatically change.

This study assumes that individuals use a multi-dimensional utility function for many different kinds of targets. This can be considered to be a function of other functions such as material (m), social (s) and normative (moral) (n).

$$U = \{m, s, n\}$$

I.3.3.1. Materially-Dominated Utility

This study also assumes that financial white-collar criminals already have a *materialistically dominant utility function* and (when motivated) they approach material targets. Since the focus of this study is FWCC, all the codes following from this point are assumed to be under the *material* dimension. We occasionally refer to other dimensions when necessary though.

We may denote the material-dominated utility function of certain individuals by ‘Mt’:

M = Materially-dominant Utility

I.3.3.2. Socially-Dominated Utility

People with socially dominated utility function value the needs, ideas, well-being, health, morale *etc.* of other people or the public in general and incorporate these

both fulfill the detail level of the theoretical construct and to allow expansion of the study to further detail levels by the inclusion of the additional type of coding such as ‘*properties of subcategories*’.

²³⁰ Please refer to Chapter 6 for more explanation on multi-dimensional utility functions.

values in their decision-making dynamics. We may denote socially dominated utility function by ‘*S*’.

S = Socially-dominant Utility

Since some of the political economic systems claim that their society functions on a socially-dominated utility function, consequences of the divergent economic behaviour of those people are important in both economic and criminological, legal studies, but in this study, the consequences of such utility are considered to be recessive for the white collar criminals when compared to material dimension. Still, this dimension is included in the study as an environmental factor of the individuals who act on material dimensions, but live in a society with socially-dominated utility function.

1.3.3.3. Morally (Normatively²³¹) Dominated Utility

People with normatively dominated utility function prefer moral, normative targets compared to other alternatives such as material or social targets. For instance, devoted Muslims would not receive interest (*material* target) even if the yield of accumulated interest would go to a charity for the poor (*social* target) because of their dominant *moral* utility which bans earning interest. We may denote such utility by ‘*N*’:

N = Normatively-dominant Utility

1.3.4. Categories & Properties

In grounded theory research, “the properties of each category of concepts must be defined along a continuum” (Colls and Hussy, 2009: 179) and we preserved this continuum, by meshing every newly added property of a certain category into the theoretical formulation.

1.3.4.1. Under the Concept ‘Motivation’

There are two *categories* of the *concept* ‘motivation’: (i) positive motivation, (ii) negative motivation. Negative motivation also increases the motivation towards

²³¹ Use of normativity can be preferred for the societies with transcendental beliefs other than established religions.

material (financial) targets. Positive and negative motivations can be considered to be the analogies of *carrot and stick* for motivation.

1.3.4.1.1. Positive Motivation

Positive motivation is the motivation that moves the individual towards the targets because of the positive consequences of acquiring the target, enjoying its value and decreasing the need gap.

1.3.4.1.1.1. Actual-Self

Actual self is – materialistically, socially and morally - where we are now. For instance, a given individual may work in a corporation as a CEO who receives a certain amount of salary, bonuses, rent from his/her estates and who has his/her shares of certain stock, cars, yacht, house, belongings, jewellery *etc.* This is the material actual self of a given financial white collar criminal both in a point in time and in short-term continuum.

As we mentioned before, there must be two kinds of actual self: (i) *perceived* and (ii) *real* because, similar to all other perception theories²³², information-processing theory argues that sensations and perceptions are different because “sensations were pure and were not influenced by previous learning and experience” (Matlin, 1983: 7), but perceptions were. Thus, we need to distinguish the sensed and perceived concepts, categories, properties throughout our analysis and this usually refers to the vocabulary we use before the criminal act (perception) and after it (sensation).

Thus, *Properties* of the category ‘Actual Self’ are twofold: (i) perceived actual self, (ii) real actual self.

1.3.4.1.1.1.1. Perceived Actual-Self

According to rational choice theorists,

offenders ... use free will and weight the *perceived* costs against the potential benefits. This weighing is called *choice structuring*. Offenders choose to engage in criminal acts if their *rough calculation* suggests the action might result in net gain. (Lanier and Henry, 1998: 77, emphasis added)

Our *perceived* actual self is what we think we are now. For instance, the CEO

²³² Mainly, empiricist, Gestalt, Gibsanian, behaviourism.

exemplified above may be paying a credit of \$10 million after he/she bought a yacht but even before the credit is paid he/she could be a member of the yachting club and perceive himself/herself at the financial status of the people in the club.

There are two possibilities. Our perception, if erroneous, may either be more than what we really are or it may be less than it. In the first case, the perceived actual self is how we advertise ourselves. It is usually more just, richer, more beautiful/handsome, more knowledgeable, more ethical, *etc.* than what we are in reality. On the other hand, when ‘perceived actual self’ is lower than our ‘real actual self’ we try to be reserved, humble, unassuming, we are less demanding because we think,²³³ we first need to reach our *actual self*, the self the society usually sees us at. As mentioned earlier, all of our selves (*e.g.* ideal self, real self *etc.*) are socially constructed; we learn valuable information about ourselves from outsiders²³⁴, from others. In a way, such people are competing with themselves and not with others because the choice about the direction of their perception error belongs to them. If they decide their perceived actual selves are above their real actual selves they take a group of people above them and compete; however if they decide their perceived actual selves are below their real actual selves they actually compete with themselves.

In finance as well, according to the behavioural finance theory, “[s]ome cognitive errors result from *self-deception*, which occurs because people tend to think they are better than they really are” (Nofsinger, 2011: 7).

We may now code these relative positions of perceived and real actual selves and denote *perceived actual self* as ‘ $A_{p>r}$ ’ when it is more than *real actual self* and as ‘ $A_{p<r}$ ’ when it is less than *real actual self*.

1.3.4.1.1.1.2. Real Actual-Self

Our real actual self is what we are in reality. For a successful person who is a good observer and analyser of his/her socio-economic environment and who appraises his/her position in it correctly, equality of the *real* and *perceived selves* can be assumed but literature and experience tell us that such people are not common. We usually make perception errors about our position in the material, society and moral

²³³ Indeed we ‘aim’.

²³⁴ Nietzsche (2005) in “Also sprach Zarathustra” gives a nice, philosophical explanation of this phenomenon.

dimensions.

Let us denote *actual self* with capital 'A', *perceived actual self* with 'A_p' and *real actual self* with 'A_r'.

A= Actual-self,

A_p= *Perceived* actual-self,

A_r = *Real* actual-self,

We can show *perceived* (A_p) and *real* (A_r) *actual selves* as the multi-attributed utility functions.

A_p = {m₋₁, s₋₁, n₋₁}

A_r = {m₀, s₀, n₀}

*Actual-Self Error*²³⁵

One may code these imbalanced positions of perceived and real actual selves as actual-self error. Actual-self error, thus, is the discrepancy (perception error) between the *perceived actual-self* and the *real actual-self* offenders make. So, this is just the gap between the individuals' *perceived* and *real* material selves. Instead of calling this difference a 'gap' let us use a more analytic representation, which is very common in finance literature. For financial white collar criminals, it is easy to observe common positive actual-self-error. For example, Nick Leeson of Barings who tried to change the whole market and thus the Nikkei singlehandedly as a broker with limited resources is a stereotype example.

A_{err} = A_p - A_r

1.3.4.1.1.2. *Ideal-Self*

Ideal-self is where we envision ourselves to be in the future or as an ideal. Although usually thought to be only individually constructed, societies' *labels*, stigmas, appreciations and acknowledgements help individuals or all other offenders build both

²³⁵ Please note that actual-self-error is not coded at this level in order not to cause confusion with its more important equivalent description: 'haste' or *impatience* and *patience* as negative and positive haste.

their ideal and actual selves. Media, culture and all social interactions can be regarded as such factors. Since the focus of this study is FWCC, the ideal self is the *material* or socio-economic ideal self in this study.

We may observe these effects in the modified dynamic motivation model of Rollinson *et al.* (1998). This model²³⁶ in its static form also shows the relationship between ideal self, actual self, need gaps and expectations.

For further use, we may denote ideal self with capital ‘*I*’. Ideal self is a multi-attributed function of *material* (*m*), *social* (*s*) and *normative* (*n*) utilities but in this study we focus on the *material dimension* of the *ideal self* which is similar in volume across all the cultures as Hofstede (1991) shows in his masculinity index²³⁷.

I = Ideal-Self

$I = \{m_n, s_n, n_n\}$

Usually m_I (ideal self’s material utility), is larger than both m_0 (real actual self’s material utility) and m_{-1} (perceived²³⁸ actual self’s material utility), s_I (ideal self’s social utility) is larger than both s_0 (real²³⁹ actual self’s social utility) and s_{-1} (perceived²⁴⁰ actual self’s social utility) and n_I (ideal self’s normative utility) is larger than both n_0 (real²⁴¹ actual self’s normative utility) and n_{-1} (perceived²⁴² actual self’s normative utility).

Strauss and Corbin (1994: 277) complain that “researchers often seem to concentrate on coding as this methodology’s chief and almost exclusive feature, but do not do theoretical coding... some researchers deliberately do not aim at developing theories” (Colls and Hussey, 2009: 181). To overcome this complaint, we used the ‘*theoretical coding*’ beginning from the coding below. Thus, there are two kinds of codes in this Appendix: the ones *with* and *without* numerical codes. *Theoretical coding for conceptualization* is given in the text without the numerical codes but in title they have their formal codes. The traditional coding, as mentioned before, takes place as

²³⁶ See Chapter 6.

²³⁷ See Chapter 7.

²³⁸ More precisely ‘perceived actual self’.

²³⁹ More precisely ‘real actual self’.

²⁴⁰ More precisely ‘perceived actual self’.

²⁴¹ More precisely ‘real actual self’.

²⁴² More precisely ‘perceived actual self’.

numberings of the titles when not explicitly isolated and theoretical coding takes place in the text without numerical codes (e.g. actual-self error, ideal-self error).

Properties of the *category* ‘ideal self’ are twofold: (i) Perceived ideal self; (ii) Real ideal self.

1.3.4.1.1.2.1. Perceived Ideal-Self

Perceived ideal self is the *real-ideal self*, increased by ‘*ideal-self perception-error*’ either positively or negatively. Individuals have targets about their future professional and financial life. When for instance their own material targets are considerably higher than the material targets society sees as acceptable, reasonable, for the same individual, *perceived ideal self* is different than the *real ideal self*. Ideal self is also a multi-attributed function of material (m), social (s) and normative (n) utility. We may denote perceived ideal self with (I_p) which can be depicted as multi-attributed function.

$$I_p = \text{Ideal-Self}_{\text{perceived}}$$

$$I_p = \{m_n, s_n, n_n\}$$

1.3.4.1.1.2.2. Real Ideal-Self

Real ideal self is the *ideal-self* appropriate to our abilities (*real expected probability*) and needs (*real need gap*). Usually (excluding exceptional individuals) society appreciates better the real ideal selves of the individuals under normal circumstances in a given society with normal risks because people’s perception errors about themselves are greater than the perception error of the society about them. Probably because society has various viewpoints compared to the individual. Let us denote real ideal self with (I_r).

$$I_r = \text{Ideal-Self}_{\text{real}}$$

$$I_r = \{m_n, s_n, n_n\}$$

*Ideal-Self Error*²⁴³

Ideal-self error is the error between the *perceived ideal-self* and the *real ideal-self*. This is common to all individuals, but in this study we take it as a perception error offenders make. *Ideal self error* can be denoted by (I_{err}).

$$I_{err} = I_p - I_r$$

1.3.4.1.1.3. Need Gap

Need gap is basically the difference between our *ideal* and *actual selves*. As our need gaps increase, we need to do more to reach our ideal self (in our case of FWCC acquiring more financial gains) and thus, to study, earn, buy, spend more. If we do not have the means to do those things, some of us may choose shorter, easier ways of reaching them and commit crime. Consequences of the varied forms the need gaps take in various societies²⁴⁴ are important to discuss under financial crimes. Still, the discussion has not reached the point where we discuss the *deviant* motivation for *illegitimate targets*. Need fulfilment and the motivation for that is inside the legal framework until we include the time constraints as a pressure on the individual.

If we denote ‘need gap’ which is also a multi attributed utility ($N = \{m, s, n\}$) as ‘ N ’, ‘ideal self’ as ‘ I ’ and ‘actual self’ as ‘ A ’, we could formulize the ‘need gap’ as follows:

$$\text{Need Gap} = \text{Ideal Self} - \text{Actual Self}$$

Formula I.1: Need Gap

$$N = I - A$$

Properties of the *category* ‘Need Gap’ are also twofold: (i) *Perceived* need gap; (ii) *Real* need gap, which are explained as follows.

²⁴³ Please note that the *ideal self error* is not coded at this level in order not to confuse it with relatively more important group of codes: *ambition* and *greed*.

²⁴⁴ See Chapter 6 about the societies with normal and non-normal (right/left skewed, high/low kurtosis) wealth, income and other socio-economic distributions *as the determinants of the need gaps*.

1.3.4.1.1.3.1. Perceived Need Gap

Perceived need gap is the discrepancy between individuals' *perceived actual selves* and the *perceived ideal selves*. In a way, perceived need gap is all about the individual with all the perception errors.

$$\text{Need Gap}_{\text{perceived}} = \text{Ideal Self}_{\text{perceived}} - \text{Actual Self}_{\text{perceived}}$$

$$N_p = I_p - A_p$$

1.3.4.1.1.3.2. Real Need Gap

Real need gap, unlike perceived need gap, is the need gap free from the perception errors of the individual about his/her financial position now and the financial position in the future in a *reasonable time*. *Reasonable time* is socially constructed but varies depending on the level of expected probability of the individual.

$$\text{Need Gap}_{\text{real}} = \text{Ideal Self}_{\text{real}} - \text{Actual Self}_{\text{real}}$$

$$N_r = I_r - A_r$$

Need-Gap Error

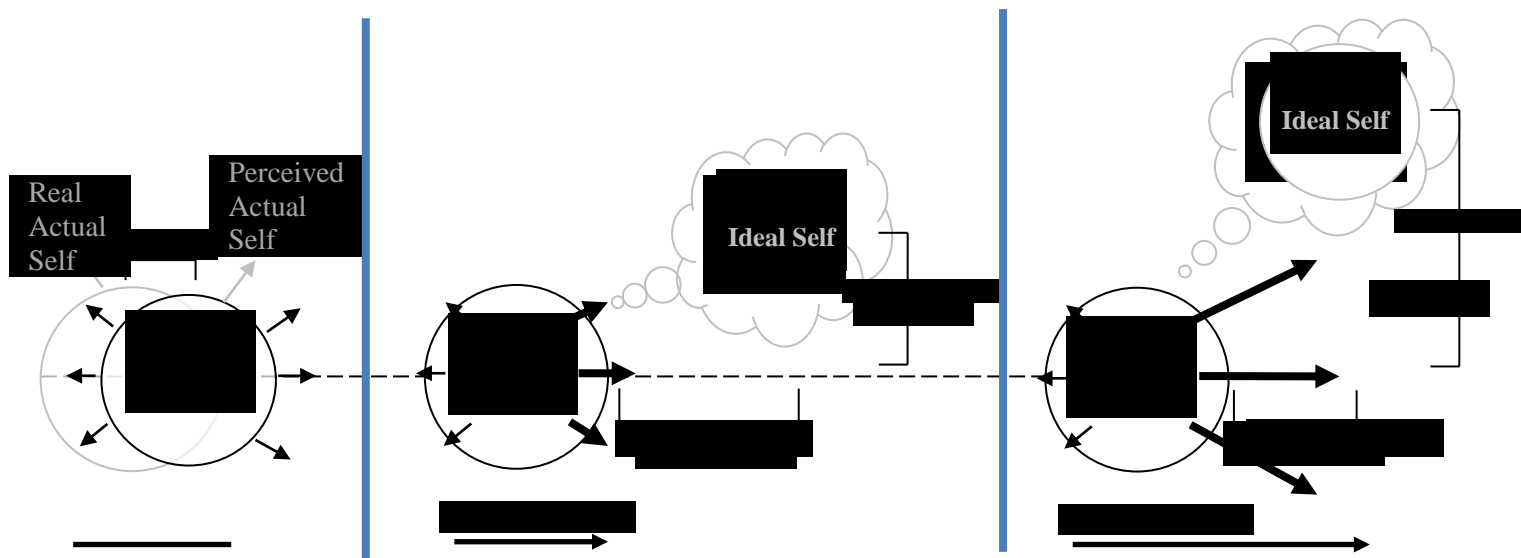
Need-gap error is the error between the perceived need-gap and the real need gap that offenders make. Need gaps may have consequences for crime deviance. For instance, the individual may feel burnout after reaching the financial position that is after $I_p - N_{err}$ from his current position for obvious reasons or commit crime depending on the time perception of the individual and the *opportunity space*.

$$N_{err} = N_p - N_r$$

1.3.4.1.1.4. Expected Probability

In the model of Rollinson *et al.* (1998:149), the expectation is simply the capability, the ability of the individual to reach the goals by legitimate means. We may show this concept in a visual model in Figure I.1:

Figure I.1: Examples of Relative Positions of Categories²⁴⁵



As illustrated, expectation or expected probability could be considered as the probability of reaching the goals and can be denoted ' Ep ' as *expected probability*. In Figure I.1, some of the codes are illustrated in a visual form. In the right-most figure, the motivation is higher compared to the middle figure because a higher ideal self is aimed by the motivated offender to be reached in the same amount of time. This difficult position requires more motivation when expected probabilities are the same.

Then;

Ep = Expected Probability

$Ep = \{m_n, s_n, n_n\}$

$Ep = 1$ when individual has the same capabilities, education, experience as the average person in the same socio-economic situation in the society.

If $Ep > 0$ then; $Ep = |Ep|^1$ when individual has lower capabilities, compared to an average person in the same socio-economic situation in the society.

²⁴⁵ Greyed-out figures are not actual and/or current depictions.

and

If $Ep < 0$ then; $Ep = |Ep|^{-1}$ when individual has higher capabilities, education, experience as the average person in the same socio-economic situation in the society.

If $Ep = 1$, it means that it is not very likely that the would-be-offender can reach his/her goals²⁴⁶ and if the Ep increases in positive values we may assume that the would-be-offender has an increasing capacity to reach his/her goals. Negative increase in Ep means that the individual is approaching his/her feared self. This may or may not increase crime vulnerability, depending on the other parameters of the situation. Expected probability can be measured as a distance to the average. If for instance a certain quality (e.g. higher education) increases the pace of the individual twice in a socio-economic setting then the expected probability with this additional quality can be measured as 2, but other parameters such as experience, training, accumulated wealth should be taken into consideration as well while measuring in a materialistically dominated utility function.

In many ways, this model is a probabilistic one, because, as Vaus (2001: 2) states, “one of the fundamental purposes of research design in explanatory research is to avoid invalid inferences”, because “while we can observe correlation we cannot observe cause. We have to infer cause.” (Vaus, 2001: 4)

Cause is either deterministically or probabilistically formulated. Given the enormous complexity of the social systems, inferring deterministic cause-and-effect relationships in social sciences is not easy or even “sounds odd. It is hard to conceive of a characteristic or event that will invariably result in a given outcome even if a fairly tight set of conditions is specified” (Vaus, 2001: 4). Therefore, in social sciences most causal thinking is probabilistic (Suppes, 1970). “We can improve probabilistic explanations by specifying conditions under which X is less likely and more likely to affect Y. But we will never achieve complete or deterministic explanations.” (Vaus, 2001: 5)

Thus, *properties* of the *category* ‘expected probability’ are twofold: (i) Perceived

²⁴⁶ Because there is a good reason why this position exists in that specific society. People around the average position are most likely to continue to be in the same position. The ones that can be promoted to the fewer positions at the upper levels need to be above and far above the average.

expected probability; (ii) Real expected probability.

1.3.4.1.1.4.1. Perceived Expected Probability

People, especially in finance, over-estimate the probability of gains and their abilities. For instance when asked about their ability at driving, 65% of the individuals questioned by Nofsinger (2011) claimed to be better than the average driver, which is not possible. We may denote *perceived expected probability* by Ep_p .

$$Ep_p = \text{Expected Probability}_{\text{perceived}}$$

1.3.4.1.1.4.2. Real Expected Probability

Usually in finance the real probability of gains is less than the perception of it, but being fully aware of both the strengths and the weakness of oneself is a valuable asset. As the *real expectations* get higher, the crime disposition gets lower because more expectation means more alternatives to crime. As Siegel (1995: 114) argues “criminal motivation may be reduced if potential offenders perceive *alternatives*”. We may denote *real expected probability* by Ep_r . As the *expected probability error* gets larger when perceived expected probability is higher then the real expected probability is that it is highly likely that people commit more crime.

$$Ep_r = \text{Expected Probability}_{\text{real}}$$

Expected Probability Error

Expected probability error is the perception error between the *perceived expected probability* and the *real expected probability* that offenders make. Sternberg (2004: 72) calls this property in a different context ‘expectation gap’, while comparing the abilities and roles of auditors and their perceived equivalents by the society.

$$Ep_{err} = Ep_p - Ep_r$$

1.3.4.1.1.5. Time

Time is used to code the individual’s moves from one financial position to another. Time is also a multivariate code and is relative because every society provides various financial infrastructures of financial interactions, investments, developments *etc.* We

may denote time by 't'.

$t = \text{Time}$

$$t = \{m_n, s_n, n_n\}$$

Properties of the category 'time' are twofold: (i) Perceived time; (ii) Real time or 'reasonable' time.

1.3.4.1.1.5.1. Perceived Time

Perceived time is the time-span in which the individuals think they can reach their ideal selves, usually measured in years or months. Usually individuals make perception errors about their pace towards their future attainment of their ideal selves.

$t_p = \text{Perceived Time}$

$$t_p = \{m_n, s_n, n_n\}$$

1.3.4.1.1.5.2. Reasonable Time

Reasonable time is the average time individuals spend in moving from their current financial position to their ideal position in a given society. It is socially constructed and it depends on the circumstances of the society in which the individual lives.

A visual explanation of the term is possible by socio-economic distributions. Chapter 6 depicts smooth nonlinear distributions of socio-economic statuses in various societies; however, those distributions appear in *non-smooth*, non-linear distributions especially when more details are allowed in the distributions. Looking at the micro locale of the individual in those distributions, it is possible to measure the reasonable *ideal place* and *reasonable time*²⁴⁷ for every specific individual, because so long as these distributions depict the real socio-economic positions of the individuals, a reliable measure of reasonable *ideal place* and *reasonable time* is measurable with an accuracy that is free from both self-perception errors and the perception errors of others.

For instance, both government officials' and private company personnel's career plans

²⁴⁷ For a quantitative measurement of 'reasonable time', frequencies of socio-economic status can be converted into time periods by using Fourier Transformation.

show possible routes of promotion. Thus, it is known by individuals and by the public how many years it takes to get promoted to a higher socio-economic position. This time-span can be taken as the ‘reasonable time’ for that specific group of people.

However, better workers get promoted earlier than others and thus, there is a relationship between the reasonable time and expected probability.

Reasonable time can also be represented as a multi-attributed utility function.

$t_r = \text{Reasonable Time}$

$$t_r = \{m_n, s_n, n_n\}$$

Time Error

Time error is the error between the *perceived time* and the *reasonable time*. This is a perception error offenders make. *time error* can be denoted by (t_{err}).

$$t_{err} = t_p - t_r$$

1.3.4.1.1.6. Motivation

Formulating the relationship between *ideal/actual self*, *need gap* and *expectation* suggested by the motivation model of Rollinson *et al.* (1998: 149)²⁴⁸, we may form an equation to show the relationships between these variables in a simpler way. We may denote motivation with capital ‘*M*’ for further use and give the general equation for it. Motivation can also be represented as a multi-attributed utility function.

$M = \text{Motivation}$

$$M = \{m_n, s_n, n_n\}$$

$$\text{Motivation} = ((\text{Ideal Self} - \text{Actual Self}) \times 1/\text{time}) \times |\text{Expected Probability}|^{\pm 1}$$

or

²⁴⁸ See Chapter 6

$$\text{Motivation} = (\text{Need Gap} \times 1/\text{time}) \times |\text{Expected Probability}|^{\pm 1}$$

Formula I.6: Motivation

$$M = (I - A) \times \frac{1}{t} \times |Ep|^{\pm 1}$$

or

$$M = N \times \frac{1}{t} \times |Ep|^{\pm 1}$$

It should be noted that ‘greed’ as a similar term is also an excessive motivation with a level higher than the threshold.²⁴⁹ This is obvious from the definition of Boatright (1999), a behaviour that leads someone to maximize their own perceived self-interest because this is indeed the definition of rational choice as well.

Especially in a legal and cultural environment where everybody takes risk all the time habitually, people expand their risk-taking limit and in such environments one of the options would be committing crime. In contrast, in low-risk-taking-societies,²⁵⁰ *ceteris paribus*, the same individual would not see crime as an option. So, *haste* and *impatience* are consequences of not only the environment but also the inner being, self-definition. Since *haste* can be learned socially all the discussions of the social control theories are psychological theories that are valid under this study.

Properties of the *category* ‘Motivation’ are twofold: (i) Perceived motivation, (ii) Real motivation.

1.3.4.1.1.6.1. Perceived Motivation

Perceived motivation is the motivation with mistakes individuals make about their *motivation* without knowing their *real* and *ideal-self mistakes*, their miscalculations of their abilities *etc.* Perceived motivation can be denoted by M_p and formulated as

²⁴⁹ Threshold being the real ideal self for a given individual depending on his/her current financial situation and the socio-economic circumstances of the society such as wealth and income distribution.

²⁵⁰ See Chapter 7 for more details on Hofstede’s studies along with other arguments on risk-taking behavior in various cultural environments.

follows.

$$Motivation_{perceived} = (Ideal\ Self_{perceived} - Actual\ Self_{perceived}) / time_{perceived}) \times |Expected\ Probability_{perceived}|^{\pm 1}$$

or

$$Motivation_{perceived} = Need\ Gap_{perceived} \times 1/ time_{perceived}) \times |Expected\ Probability_{perceived}|^{\pm 1}$$

$$M_p = ((I_p - A_p) \times 1/ t_p) \times |Ep_p|^{\pm 1}$$

or

$$M_p = N_p \times 1/ t_p) \times |Ep_p|^{\pm 1}$$

1.3.4.1.1.6.2. Real Motivation

Real motivation is the motivation of the offender, which is calculated by taking into account all the *perception errors* and which must be recalculated and readjusted after the realization of the objectives and targets, after seeing and experiencing the real capabilities, *real values* of the targets and punishers' punishments. Both *legitimate* and *illegitimate* punishments are taken into consideration at the time of the readjustment. As outsiders we cannot know the perceived motivation of the individuals unless we analyse the situation and inner-self of the offender in detail but may know the real, reasonable motivation by comparing his/her situation with the situations of similar individuals. Real motivation can be denoted by M_r and formulated as follows.

$$Motivation_{real} = (Ideal\ Self_{real} - Actual\ Self_{real}) \times 1/ time_{real}) \times |Expected\ Probability_{real}|^{\pm 1}$$

or

$$Motivation_{real} = Need\ Gap_{real} \times 1/ time_{real}) \times |Expected\ Probability_{real}|^{\pm 1}$$

$$M_r = (I_r - A_r) \times I / t_r \times |Ep_r|^{\pm 1}$$

or

$$M_r = N_r \times I / t_r \times |Ep_r|^{\pm 1}$$

So, the perceived motivation is what is expected from a person with many perception errors and what eventually is realised is the real motivation which usually falls short of perceived motivation and is realised in a realistic position of the individual in a given society with certain biological, psychological, intellectual, financial *etc.* capabilities.

Motivation Error

Thus, apparently there is a difference between the *motivation* that is produced with perception errors and the one that is free from such errors. People may be seen as less or more motivated given their circumstances usually by the *immediate* and *greater society* surrounding the offender. Thus, the *motivation error* is the error between the motivation calculated by true parameters (usually from outsiders) and the calculations with perception errors (usually by the offender himself/herself). Motivation error is the error between the perceived motivation and the real motivation.

Motivation may seem a continuum of need gap but there are good reasons that these codes are different. For instance motivation can be more or less than the need gap of an individual. If an individual's perceived actual self is more than his/her real actual self, then, neither motivation error, nor need gap can give the true picture of the individual's distance and pace to his/her ideal self.

$$M_{err} = M_p - M_r$$

or

$$[(I_p - A_p) \times I / t_p \times |Ep_p|^{\pm 1}] - [(I_r - A_r) \times I / t_r \times |Ep_r|^{\pm 1}]$$

1.3.4.1.1.7. Haste or Impatience (The Core Category)

Haste is the desire to access something with limited, insufficient resources. The model we presented up to this point is a generic model of *motivation* and does not necessarily produce *deviant* behaviour. Until this point, *haste* or *impatience* does not

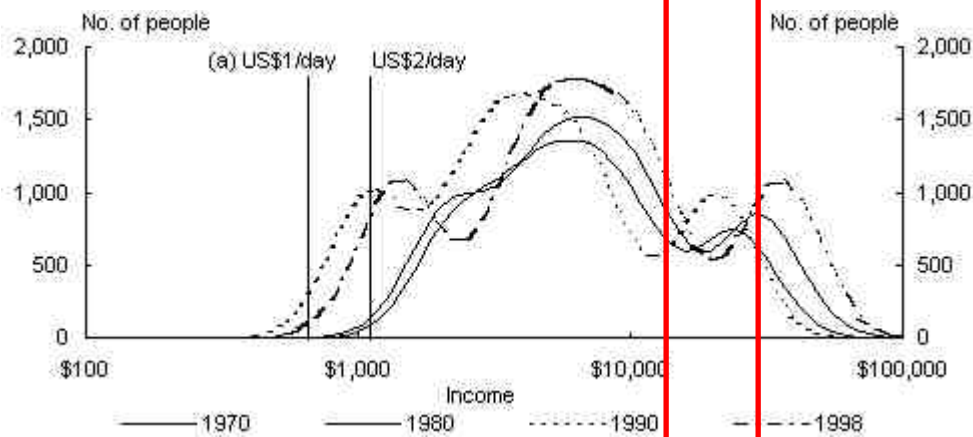
appear in our model and in its current form it represents the motivation model of Rollinson *et al.* (1998: 149). As is presented in Chapter 6, we reproduce this model and put the individual into his/her relevant environment in a dynamic process. Characteristics of various possible environments such as linear, non-linear, normal and non-normal socio-economic distributions are also presented in Chapter 6. The meaning, value, characteristics of haste must be judged and determined inside this framework. Two individuals living in the same society with close socio-economic proximity may have completely different haste and motivation levels, because of the nonlinear consequences of motivational environment. For instance, as shown in Figure I.2, moving from \$20,000 income to \$40,000 means completely different things. In the income distribution of Argentina, for instance, this dynamic socio-economic move puts the individual into a new class, while in Australia the individual is still in the same class despite the fact that he/she has doubled his/her income. This is an indication of the relative meaning of pecuniary change. Undoubtedly, an individual moving from Argentina to Australia with \$40,000 unchanged income needs an adjustment time because he/she moves to a middle-class position, where he/she may claim a white-collar privilege he/she got used to in Argentina. This is one of the causes of 'haste' in FWCC. The same example can be extended to dynamic moves inside or outside corporations, institutions, hiring, firing *etc.*

In a situation similar to the one presented in Figure I.2 individuals may be in haste to reach a higher status in the society. This is tantamount to saying that they are usually under time constraints. Since all the aims, financial positions, are achievable when enough time is provided, crime, especially financial crime, occurs with the scarcity of time. This is an intuitive way of presenting *haste*. This is an environmental, macro look at *haste*, but we may also define *haste* as a discrepancy (or error) between the *real actual self* and the *perceived actual self*²⁵¹ because the interaction between our inner self and outer environment is a two-way interaction.

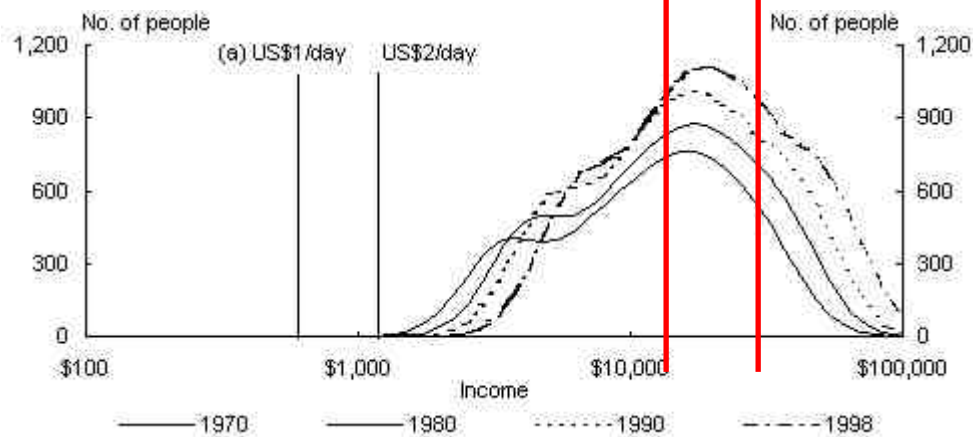
²⁵¹ There is some empirical research to support this claim. For instance Perrone *et al.*, (2004: 307) showed that "the over-sampled middle and upper-middle-class Blacks in the sample exhibited relatively high levels of self-control". This effect in our model can be interpreted as the relative inability of the stigmatized Black people to set ideal selves that are higher than their status ("middle- and upper-middle-") in the society they live in and thus as their having less discrepancy between their *perceived actual* and *real actual selves*.

Figure I.2: Complex Consequences of Nonlinear Socio-Economic Distributions

Argentina's Income Distribution



Australia's Income Distribution



Source: The Treasury of the Australian Government (see: www.treasury.gov.au).

As its linguistic meaning suggests, haste is an error. Actually, earlier in this Appendix we presented haste as actual self-error the individual makes about his/her position but did not code it then. This error has consequences during his/her financial interactions with the outer world.

We may denote haste with capital ' H '. Volume and signs of the haste (H) is derived from the gap between the real actual self (A_r) and perceived actual self (A_p). Haste has the following constraints and properties:

$$H = \text{Haste,}$$

$$H = \{m_n, s_n, n_n\}$$

$$H = | \text{Actual Self}_{\text{perceived}} - \text{Actual Self}_{\text{real}} |$$

Formula I.7: Haste

$$H = | A_p - A_r |$$

Properties of the category 'Haste' are threefold: (i) Impatience; (ii) Patience, and (iii) No Haste.

when;

$$A_p > A_r, H = |H|^{+1} (H^{+1} = \text{Impatience})$$

$$A_p < A_r, H = |H|^{-1} (H^{-1} = \text{Patience})$$

$$A_r = A_p, H = |H|^0 (H^0 = \text{No haste})$$

Different cultures have different evaluations of time (Levine, 1997), and these differences affect crime propensity. If, for instance, some are more *patient* compared to others, it means that their time elasticity is greater, and thus they are less vulnerable to financial crimes. In some cultures, time itself has pecuniary consequences and this fact also affects crime propensity generally in a negative way because this translates into a less elastic time value and greater stress and pressure on financial agents. Hofstede (1991) provides an index of long-term and short-term orientation of various cultures and his studies may give some insights about the comparative positions of cultures in relation to time perception. In some cultures for instance people want things immediately in a 'right here, right now' manner. Credit is a good option for such people who cannot wait. Then, one of the best ways of measuring *haste* in financial crime motivation is analysing the debt habits of the agents.

1.3.4.1.1.7.1. Impatience

It can be assumed that financial white collar criminals and criminals in general are impatient, either because of environmental strain, injustice or as a consequence of learned impatience gained while living in a certain macro or micro environment.

Biological, moral, political and other means of impatience as a consequence of time inelasticity are also possible.

When, $A_p > A_r$, $H = |H|^{+1}$ ($H^{+1} = Impatience$)

1.3.4.1.1.7.2. Patience

Patience, on the other hand, is possible for all individuals even in the strictest economic, social, environmental etc. conditions. In some cultures, such as some Indian cultures, the selves are educated enough to be patient under severe conditions. Therefore, it is possible to decrease crime rates even in the toughest environments. Nevertheless, if biological, social, educational, economic, political *etc.* conditions are corrected for the individuals to make it easier for the individuals to be more patient then crime rates may decrease even in the financial environments with big opportunities so long as the crime still has a negative net outcome for individuals.

when, $A_p < A_r$, $H = |H|^{-1}$ ($H^{-1} = Patience$)

Proactive guardians like families, friends, colleagues, peers, neighbours, normative institutions etc. help build a contracting force against deviance, according to their own nature, own principles, before the existence of the deviant behaviour. These guardians produce 'patience'. Passive guardians do not cover all the deviance but this amount encompasses many enacted crimes and the financial crimes we study are only a few of them.

1.3.4.1.1.8. Ambition & Greed

Depending on the volume of positive perception error between real and perceived ideal selves, we may name this gap with a series of words such as 'ambition', 'eagerness', 'avidity', 'greed', 'avariciousness' etc.

As we symbolized before; $I_{err} = |I_p - I_r|$, we can now code this phrase into the code *1.3.4.1.1.8*, as *A&G*.

A&G = Ambition and Greed

$$A\&G = \{m_n, s_n, n_n\}$$

$$A\&G = | \text{Ideal Self}_{\text{perceived}} - \text{Ideal Self}_{\text{real}} |$$

when;

$$I_p > I_r \text{ (or positive } I_{err}) \text{ and } I_p < Pos_i + SD_{i+1} \text{ then } A\&G = |Ag| \text{ (Ambition)}$$

$I_{err} = \text{Ambition}^{252}$ (depending on their distance from real actual self) and when Expected Probability (Ep) is equal to or *more* than .5

and

$$I_p > I_r \text{ (positive } I_{err}) \text{ and } I_p > Pos_i + SD_{i+1} \text{ then; } A\&G = |aG| \text{ (Greed)}$$

$I_{err} = \text{Greed}^{253}$ (depending on their distance away from one SD after Pos_i) and when Expected Probability (Ep) is equal to or *less* than .5

1.3.4.1.2. Negative Motivation

Negative motivation also moves the individual towards the targets²⁵⁴ here, the negative emotions (e.g. sorrow, fear) instead of the happiness as a result of the positive motivation moves individuals. Financial criminals do not like the consequences of losing what they have and to keep having it, they are motivated towards material targets.

1.3.4.1.2.1. Feared-Self

This is not a frequently used concept in motivation models. For instance, the model of Rollinson *et al.* (1998: 149) does not mention such a self either explicitly or implicitly. Nevertheless, in a discursive way, Göksu (2011) and many others (e.g. Mowrer, 1939; Farber, 1948; Miller and Dollard, 1941; Mowrer and Lamoreaux, 1946; Brown and Jacobs, 1949) conduct studies on ‘fear’ as a motivational factor along with the usual factors such as desires, ideals and needs. Göksu (2011) argues that when people’s ‘fears’ (along with other needs and desires) are not satisfied, they

²⁵² or Eagerness

²⁵³ or Avidity, avariciousness

²⁵⁴ We do not yet make a distinction between the criminal and legitimate targets. For the position where *perceived ideal self* is less than *real ideal self*, please refer to the code ‘*equanimity*’ and ‘*apathy*’.

are first distressed and then depressed, if they stay under such stress for a long time, and this affects their motivation.

According to Brown and Jacobs (1949: 747, emphasis added), fear is “(usually) *learned*” because “elicited by (conditioned) stimuli”, which in the past was “followed by noxious (unconditioned) stimuli”. As Lamoreaux (1946) points out, fear is associated with ‘*avoidance*’ behaviour. Brown and Jacobs (1949: 148) agree with Lamoreaux (1946) about the associated avoidance behaviour. Indeed they conduct some tests about the motivational consequences of fear and observe that “the fearful animals were much slower than the controls, the mean log latencies for the two groups being 2.71 and 1.88 sec.” and that “these animals were more prone to ‘freeze’ or crouch than were the non-fearful ones” (Brown and Jacobs, 1949: 148).

Brown and Jacobs (1949: 155, emphasis added) conclude that

Since in both experiments the fearful animals learned the new response, whereas their comparable controls did not, the conclusion is drawn that fear-reduction functions much like other *drive-reductions* to reinforce new responses. The data do not indicate, however, that fear, in spite of its apparent drive properties, is necessarily accompanied by an increase in overt activity.

Healy and Proctor (2003: 41) link the fear and environment by saying that “*fear* is a motivational system that is provoked by danger signals in the *environment*” (emphasis added). This is why it is experimentally sound to code a new concept in this study, namely ‘feared self’ which is the financial position of a given individual in the short-term future when his fears about his/ financial circumstances come true.

We may denote feared-self by ‘*F*’.

$$F = \{m_n, s_n, n_n\}$$

Properties of the *category* ‘*feared self*’ are twofold: (i) Perceived feared self; (ii) real feared self.

1.3.4.1.2.1.1. Perceived Feared-Self

If a person gets very close to his/her feared self, he/she would not be deterred by even the severe and certain punishments if his/her haste is not negative and bigger in magnitude because there is the possibility that the positive returns from the crime may put a considerable distance between the feared and real selves; however punishment is

not really relevant in that case since the offender is already very close to his/her feared self.

As for the perception of fear, people, especially in finance, overestimate the probability of risks and losses (Nofsinger, 2011) too. Usually in finance the real probability of losses, the risk, is less than the perception of it (Nofsinger, 2011). Perceived feared self can be denoted by ' F_p '.

$$F_p = \text{Feared Self}_{\text{perceived}}$$

1.3.4.1.2.1.2. Real Feared-Self

On many occasions, the worst financial situations as a consequence of a variety of bad scenarios are known in the society. For instance, the consequence of being fired from one corporation is usually working in a relatively smaller, lower paying job in the same or a similar industry. If for instance some individuals have fears of being jobless for a very long time in their current position, then their *perceived fear self* may be higher than their *real feared self*. This is another self-assessment error we call *feared self error*.

$$F_r = \text{Feared Self}_{\text{real}}$$

$$\text{Feared Self Error}^{255}$$

Feared-self error is the error between the perceived feared-self and the real feared-self.

$$F_{err} = F_p - F_r$$

1.3.4.1.2.2. Guarding-Gap

Guarding-gap is the gap between the current and immediate lower dynamic level of the dominant utility preference hierarchy of the potential offender depicted in Chapter 6 as an extension of Rollinson *et al.*'s (1998: 149), although we give a psychological formulation for this concept.

$$G = \text{Guarding-Gap}$$

²⁵⁵ Further coding is possible to encode the crimes of despair, stress, fear etc. (such as *ambition* and *greed*) but our context is financial crime in this study and we stop further coding towards the feared self.

$$G = \{m_n, s_n, n_n\}$$

$$\text{Guarding-Gap} = \text{Actual self}_{\text{perceived}} - \text{Feared self}$$

Or

Formula I.8: Guarding Gap

$$G = A - F$$

Properties of the category 'guarding-gap' are twofold: (i) Perceived guarding-gap; (ii) Real guarding-gap.

I.3.4.1.2.2.1. Perceived Guarding-Gap

$$G_p = \text{Guarding-Gap}_{\text{perceived}}$$

$$\text{Guarding-Gap}_{\text{perceived}} = \text{Actual self}_{\text{perceived}} - \text{Feared self}_{\text{perceived}}$$

or

$$G_p = A_p - F_p$$

I.3.4.1.2.2.2. Real Guarding-Gap

$$G_r = \text{Guarding Gap}_{\text{real}}$$

$$\text{Guarding Gap}_{\text{real}} = \text{Actual self}_{\text{real}} - \text{Feared self}_{\text{real}}$$

or

$$G_r = A_r - F_r$$

Guarding-Gap Error

Guarding-gap error is the error between the perceived guarding-gap and the real guarding-gap.

$$\text{Guarding Gap}_{\text{err}} = \text{Guarding Gap}_{\text{perceived}} - \text{Guarding Gap}_{\text{real}}$$

$$G_{\text{err}} = G_p - G_r$$

1.3.4.1.2.3. Refrainment

Refrainment is the behaviour of keeping away from the crime. In a way it is a negative motivation to crime before the existence of the opportunity. Much of the refrainment concerns guardians such as courts, police, prisons, regulatory agencies and the policies and punishments of these institutions. These are known as active guardians in the literature and active guardians include perceptions of the laws and regulations²⁵⁶, police, intelligence *etc.* We may include the international agencies, especially for political and corporate offenders, such as INTERPOL, WTO, WHO, UN, NATO, International Court of Justice, quasi-governmental agencies such as the competition authority, FSA *etc.* and the *hisba* system in Islam and criminal justice systems in general.

However, depending on the utility preferences, social and moral institutions, such as stigmatization by the society, belief in eternal punishment of the religion, become important concerns if they have after-crime effects, as well²⁵⁷.

R = Refrainment

$$R = \{m_{-n}, s_n, n_n\}$$

$$\text{Refrainment} = \text{Guarding Gap} \times 1/\text{time} \times |\text{Expected probability}|^{\pm 1}$$

Hence,

Formula I.9: Refrainment

$$R = G \times 1/t \times |Ep|^{\pm 1}$$

or

$$R = ((F - A_p) \times 1/t) \times |Ep|^{\pm 1}$$

Thus, *properties* of the *category* ‘Refrainment’ are twofold: (i) Perceived refrainment, (ii) Real refrainment.

²⁵⁶ This is valid for the first crime motivation only and after the crime is committed the experience especially of judiciary and correction systems replaces the perception of the CJS in general before the recidivism, unless the offender changes places in time (*e.g.* enactment of new law, establishment of new institutions *etc.*) or space (*e.g.* moving to another country).

²⁵⁷ For instance education does not have such an effect. It has a proactive effect only.

1.3.4.1.2.3.1. Perceived Refrainment

Perceived refrainment is the mistakes we make about our reasonable *refrainment* level without knowing our *real-self* and *feared-self errors*, miscalculations of the *readiness of feared self*, our abilities *etc.* Outsiders may usually appraise individuals' real refrainment levels better than themselves.

$$\text{Refrainment}_{\text{perceived}} = \text{Guarding Gap}_{\text{perceived}} \times 1/\text{time}_{\text{perceived}} \times |\text{Expected Probability}_{\text{perceived}}|^{\pm 1}$$

$$R_p = G_p \times 1/t_p \times |Ep_p|^{\pm 1}$$

or

$$R_p = (A_p - F_p) \times 1/t_p \times |Ep_p|^{\pm 1}$$

1.3.4.1.2.3.2. Real Refrainment

Real refrainment is the avoidance of the offender. This includes all the perception errors and is the correct representation of the refrainment for a given individual in his/her current financial situation, reasonable feared position and his/her correctly considered abilities and qualities.

$$\text{Refrainment}_{\text{real}} = \text{Guarding Gap}_{\text{real}} \times 1/\text{time}_{\text{real}} \times |\text{Expected Probability}_{\text{real}}|^{\pm 1}$$

or

$$R_r = G_r \times 1/t_p \times |Ep_p|^{\pm 1}$$

or

$$R_r = (F_r - A_r) \times 1/t_p \times |Ep_p|^{\pm 1}$$

Refrainment Error

Apparently, then, there is a difference between the refrainment that is produced with and without perception errors. People may be seen as less or more refraining, given their circumstances, usually by the immediate society surrounding the offender. So, the refrainment error is the error between the refrainment calculated by true parameters (usually by outsiders) and the calculations with perception errors (usually

by the offender himself/herself). Refrainment error is the error between the perceived and the real refrainment.

$$R_{err} = R_p - R_r$$

1.3.4.1.2.4. Equanimity and Apathy

Depending on the volume of negative perception error between real and perceived ideal selves, we may name this gap by a series of words such as equanimity, *ithidal* (in Arabic) or *thamkin* (in Arabic) etc.

As we symbolized before;

$$I_{err} = I_p - I_r$$

when;

$$I_p < I_r \quad \text{and} \quad I_p > Pos_i - SD_{i+1} \quad \text{then;}$$

$I_{err} = \text{Equanimity}$ or *ithidal* (in Arabic) and *thamkin* (in Arabic) (depending on their distance from real ideal self)

and

$$I_p < I_r \quad \text{and} \quad I_p < Pos_i - SD_{i+1} \quad \text{then;}$$

$I_{err} = \text{Apathy}$ ²⁵⁸ (depending on their distance away from $SD_{i+1} - Pos_i$)

1.3.4.1.2.5 Position

In the upcoming sections, we need further analysis of the individuals' financial positions. This is why a new code for the current financial position of the individuals is necessary. We may denote the financial position of the individual 'i' as Pos_i .

$$Position = Pos_i$$

Current financial position may for instance be the sum of all the wealth and earnings of the individuals less their debt.

²⁵⁸ For the other possibility where *perceived ideal self* is greater than the *real ideal self*, please refer to the codes '*ambition*' and '*greed*'.

1.3.4.2. Under the Concept ‘Guardians’

Guardians are useless without punishment. If guardians do not punish but just guard the targets offenders have all the incentive to try to reach illegitimate targets time and again until finding a way of getting them. Nevertheless, guardians without punishment affect the size of the opportunity spaces because of adjustment time effects or perception errors for instance.

1.3.4.2.1. Guardians

Properties of the *category* ‘Guardians’ are twofold: (i) Active guardians; (ii) Passive guardians, and they can deliver legitimate and illegitimate punishments.

1.3.4.2.1.1. Active Guardians

We may denote ‘Active Guardians’ by ‘ G_a ’. Active guardians have the legal authority of exercising punishment. Police, SEC, INTERPOL, competition authorities, prisons *etc.* are among the active guardians. Active guardians can but usually do not act before the crime in time. Chronologically, they act either earlier than but close to the crime in the time dimension or act after the crime again close in time. They usually have little or no effect on the process of becoming a criminal before the deviant motivation phase.

1.3.4.2.1.2. Passive Guardians

Passive guardians do not have legal authority of exercising legal punishment. All social punishers are under this title, such as spouse, parents, family members, relatives, neighbours, friends, colleagues *etc.* Passive guardians’ effects on crime are usually before the crime, in terms of this study, before the deviant motivation phase of the process of becoming a financial white collar criminal.

We may denote ‘Passive Guardians’ by ‘ G_p ’.

1.3.4.2.2. Illegitimate-Target Guarding Capability

Guarding services for *illegitimate-targets* reduce the size of the *illegitimate opportunity space* by the amount of capable guarding of the whole *illegitimate opportunity space*. Illegitimate-target guarding is supplied by active guardians only.

All the environmental, systemic *etc.* precautions to prevent crime are relevant under this discussion, such as corporate governance structures to prevent crime. This category does not encompass the discussions about ‘target hardening’ because those precautions are not about the environment but the target itself.

We may denote ‘Illegitimate-Target Guarding Capability’ by ‘GC’.

GC = Illegitimate-Target Guarding Capability’

1.3.4.2.3. Punishment

All realized punishments, legal (real) or illegal (real), are extracted from perceived actual (material) self and thus decrease the guarding gap between perceived actual (material) self and perceived feared (material) self. We may denote punishments by capital ‘P’.

P = Punishment (-)

P = {m_n, s_n, n_n}

Besides, our financial position is decreased by the amount of material punishment as well: *Pos = Pos_i – P.*

Properties of the category ‘punishment’ are threefold: (i) Punishments by active guardians (legitimate punishment that is legally attached to the crime target); (ii) Punishments by passive guardians (illegal, illegitimate punishment such as stigmatization that is attached to the crime target); (iii) A-Legal Punishment (regular losses in everyday life to sustain the current position in the environment). All of these categories have the properties of ‘perceived’ and ‘real’ punishment values but we only discuss the ones under the active guardians, that is legitimate punishments.

Punishments = Punishments_{legitimate} + Punishments_{illegitimate} + Punishments_{A-legitimate}

P = P_L + P_{IL} + P_{AL}

1.3.4.2.3.1. Legitimate Punishments

Every legitimate guardian keeps a valuable target and thus all punishments come with a possible gain.

P_L = Punishments_{legitimate}

1.3.4.2.3.2. Illegitimate Punishments

Illegitimate guardians punish without the existence of any possible illegitimate gain.

$$P_{IL} = \text{Punishments}_{\text{Illegitimate}}$$

1.3.4.2.3.3. A-legitimate Punishment²⁵⁹

A-legitimate punishments are negatively correlated to everyday activities such as everyday spending for household and utility expenses, regular education payments, insurance payments, credit card payments, mortgage payments for long term purchases and other similar regular expenses in the material dimension.

$$P_{AL} = \text{Punishments}_{\text{A-legitimate}}$$

1.3.4.2.4. Legitimate-Punishment Value

Properties of the category ‘Legal-Punishment Value’ are twofold: (i) Perceived legal-punishment value, (ii) Real legal-punishments value. Let us denote *legitimate punishment* value by P_{VL} .

$$P_{VL} = \text{Legitimate Punishment's Value}$$

1.3.4.2.4.1. Perceived Legitimate-Punishment Value

Perceived legitimate-punishment value is the value of the punishment before the crime, that is, before the full realization of the punishment, with the perception error.

1.3.4.2.4.2. Real Legitimate-Punishment Value

Real legitimate-punishment value is the value of the punishment after the crime, that is, after the full realization of the punishment, without the perception error.

1.3.4.2.4.3. Legitimate-Punishment Value Error

Legitimate-punishment value error (LPVE) is the error of the offender between the perceived punishment value and the real punishment value which is realized after the crime.

$$\text{LPV Error} = \text{Perceived Legitimate-Punishment } V. - \text{Real Legitimate-Punishment } V.$$

²⁵⁹ The linguistic meaning does not perfectly fit into the code but it is still meaningful from a strictly criminological and materialistic sense.

1.3.4.2.5. Relative Value of the Punishment

From the point of view of the generic concept, punishment, the value of the punishment is not the same for all individuals, since the legitimate-punishment value error (LPVE) is different from offender to offender because there is no agreed upon perceived value of any punishment before the realization of the punishment, especially if the financial punishments are not defined as proportional to the financial damage.

1.3.4.2.6. Net-Value of the Punishment

Since the real value of punishment depends on the physical, social, psychological qualities and characteristics of the offenders, there is no agreed upon value of the net-value of the punishment. The *net-value of the punishment* is offender specific.

1.3.4.2.7. Impact of Legitimate-Punishment

Properties of the punishment's Impact are *severity (perceived and real severity)*, *awareness (perceived and real awareness)*, *certainty (perceived and real certainties)*, *celerity (perceived and real certainties)*, *stability* and more. For the detailed discussions about the qualities of punishment please refer to Chapter 3, Chapter 6 and Appendix III.

1.3.4.2.8. Opportunity Space

Opportunity spaces are twofold: (i) Immediate opportunity space, (ii) Greater opportunity spaces. The first one is the primary concern of the crime motivation however the latter one also indirectly affects crime motivation. We may denote opportunity space as 'OS'.

OS = Opportunity Space

Properties of the category 'opportunity space' are twofold: (i) Legitimate, (ii) Illegitimate. Thus;

Opportunity Space = *Opportunity Space*_{Legitimate} + *Opportunity Space*_{ILegitimate}

OS = *OS*_L + *OS*_{IL}

1.3.4.2.8.1. Legitimate Opportunity Space

For a detailed discussion of the legitimate opportunity spaces of various financial systems please refer to Appendix III and Chapter 7.

$OS_L = \text{Opportunity Space}_{\text{Legitimate}}$

1.3.4.2.8.2. Illegitimate Opportunity Space

For a detailed discussion of the legitimate opportunity spaces of various financial systems please refer to Chapter 7 and Appendix III. Illegitimate opportunity spaces are relative to the financial environment (please see Chapter 7).

$OS_{IL} = \text{Opportunity Space}_{\text{ILegitimate}}$

To give an example, according to Curtis (1998, emphasis added), “Nick [Nick Leeson of Baring] had a *dual role*. He was *the trader and the bookkeeper at the same time*. Even the auditors were uneasy about that but they praised him and reported no problem to the head office”.

As is obvious from this example, volume of *illegal opportunity space* is twofold: (i) The opportunities to reach the target, in this example, ‘the dual role’ of Leeson, and (ii) The weakness, incapability, or absence of official guardians, ‘auditors’ in this example. Let us code these variables as *environmental opportunity* and *guarding opportunity*.

1.3.4.2.9. Opportunity Space for Crime

While regular financial opportunity space is about the exchange volumes, size of the markets, available tools and techniques, assets and credits in the financial markets in a given macro or micro environment, *opportunity space for crime* is a very restricted, small part of this big space, where only illegitimate opportunities for a given individual or group are held. For instance, the whole of the assets processed in a certain time span in a city municipality is the opportunity space of that municipality as a public organization. These public institutions operate in this financial space of assets and credits as well, kept in ledgers in a municipality however the opportunity space for crime is only a small portion of all assets because preponderance of the amount is adequately guarded or the target is hardened against financial crime through many

security techniques. Thus, situational crime prevention techniques, such as ‘target hardening’ can decrease/increase the opportunity space for crime and situational crime prevention theory literature is valid under this category.

We may denote ‘*opportunity space for crime*’ by capital ‘OSC’.

$OSC = \text{Opportunity Space for Crime}$

$OSC = \text{Opportunity Space}_{\text{Legitimate}} - \text{Illegitimate-Target Guarding Capability}$

Formula I.10: Opportunity Space for Crime

$OSC = OS_{IL} - GC$

1.3.4.3. Under the Concept ‘Target’

1.3.4.3.1. Target

All the achieved targets, both *legitimate* (real) and *illegitimate* (real) are added to the *real actual (material) self* and thus decrease the *need gap* between *perceived actual (material) self* and *perceived ideal (material) self*. We may denote target by ‘*T*’.

Properties of the category ‘*target*’ are threefold: (i) Legitimate target; (ii) Illegitimate target, (iii) A-Legitimate target. There are the properties of ‘perceived’ and ‘real’ legitimate and a-legitimate targets as well but we discuss only the properties of *illegitimate targets* in this study. Thus;

$T = \text{Target (+)}$

$T = \{m_n, s_n, n_n\}$

$\text{Target} = \text{Targets}_{\text{Legitimate}} + \text{Targets}_{\text{Illegitimate}} + \text{Targets}_{\text{A-legitimate}}$

$T = T_L + T_{IL} + T_{AL}$

1.3.4.3.1.1. Legitimate Targets

Legitimate targets such as a bigger market share in a given market are free from probable *legitimate punishments* but they are not free from *illegitimate punishments* such as punishments applied by a monopoly, cartel *etc.* in a given financial market.

$$T_L = \text{Targets}_{\text{Legitimate}}$$

1.3.4.3.1.2. Illegitimate Targets

Illegitimate targets are all illegitimate financial gains from various sources such as financial gains by manipulation, speculation, tax evasion, gaining a monopoly position by competition crimes or monetary yield of financial fraud. Every *illegitimate target* comes with its probable *legitimate* and *illegitimate punishment*. However the punishments written in legal codes must be considered with their applied nature. The code *illegitimate target vulnerability* enumerates many such qualities.

$$T_{IL} = \text{Targets}_{\text{Illegitimate}}$$

1.3.4.3.1.3. A-legitimate Targets

A-legitimate targets are positively correlated to everyday activities such as salaries, regular earnings from shares, rents *etc.* These are usually the targets which keep us in the financial and socio-economic position we occupy. Only the additional gains from *legitimate* and *illegitimate targets* decrease our *need gap*. *A-legitimate targets* (usually periodic earnings for regular living expenses) usually pay *a-legitimate punishment*, that is periodic expenses such as insurance, utilities, mortgage, credit payments *etc.*

$$T_{AL} = \text{Targets}_{\text{A-legitimate}}$$

1.3.4.3.2. Illegitimate-Target Value

Properties of the category '*illegitimate-target value*' are twofold: (i) Perceived illegitimate-target value; (ii) Real illegitimate-target value. Let us denote *illegitimate target value* by T_{vIL} .

$$T_{vIL} = \text{Illegitimate target's value}$$

1.3.4.3.2.1. Perceived Illegitimate-Target Value

Perceived illegitimate-target value is the value of the target before the crime, that is, before the full realization of the target, with the perception error. We do not symbolise these codes because we do not use them in this study but they can be symbolised for further research.

1.3.4.3.2.2. Real Illegitimate-Target Value

Real illegitimate-target value is the value of the target after the crime, that is, after the full realization of the target, without the perception error.

It should be noted that all the conceptual codes produced as a result of the grounded theory research are not put into the final model in this study in order to increase comprehension, decrease the complexity level of the text by allowing fewer codes and for the sake of parsimony. In fact, the research produced more than twenty more codes as an extension of the model presented in Formula I.13 but those codes are not presented in this study because they were not sufficiently grounded on data and they require more research to fit into the code family of this research, which is well based on research and data from various areas of social sciences.

Illegitimate-Target Value Error

Illegitimate-target value error is the error of the offender between the *perceived illegitimate-target value* and the *real illegitimate-target value* and is realized after the crime.

$$\text{Illegitimate-Target Error} = \text{Perceived Illegitimate-Target} - \text{Real Illegitimate Target}$$

1.3.4.3.3. Relative Value of the Target

From the point of view of the generic concept, financial targets, the value of the target is not certain. Since the *illegitimate-target value error* is different from offender to offender, there is no agreed upon perceived value of any target. Miller (2006: 82) agrees that according to the RCT, value depends on the offender who assesses the target and not on the actual economic value of the target.

1.3.4.3.4. Net Value of the Target

From the point of view of the generic concept, financial targets, the effects of those targets are not certain and do not have one value valid for all the offenders. Since the *real value of target* depends on the physical, social, psychological qualities, characteristics of the offenders, there is no agreed upon value of the *net value of financial targets*. *Net value of the target* is offender specific.

1.3.4.3.3. Illegitimate-Target Vulnerability

The target is the primary motivation of the offender, because it provides an ‘expected utility’ for him/her. The expected utility, that is the ‘value’ of the target, helps satisfy part or all of the *need gap* of the offender. Depending on the *position* of the offender on the needs hierarchy, social structure, and utility dimensions, offenders choose different targets to satisfy their need gaps.

For instance a worker in a factory may steal a wallet of money *to buy a second hand car*, while a white collar criminal manipulates markets and eliminates his/her best competitor and enjoys the appreciation of the *Financial Times*, *Wall Street Journal*, his/her friends *etc.*

Enjoyment of the utility gained by the crime decreases the *need gap* of the offender, but in a short while, because of the recidivism and confidence effects, consequent crimes may occur until the complete fulfilment of the *need gap*.

In the mid-term though, after the enjoyment of a series of utilities and fulfilment of the *need gap*, the offender does not lose his/her deviance, because he/she increases his/her *ideal self* and/or *actual self* probably with his/her position in the hierarchy of needs and the social structure of the society. Apparently, some of the offenders do not get the utilities in some instances and may lower their need gaps and accept a lower position in the hierarchy of needs and in the society, change their utility dimension slightly or completely.

Target vulnerability is determined by the characteristics of targets. Among some of the characteristics are: value, accessibility, visibility, inertia, convertibility, ownership, ability to react *etc.* All the ‘target hardening’ literature in rational choice theories is relevant under this category.

1.3.4.4. Under Mutual Concepts ‘MotivationRefrainment’

1.3.4.4.1. MotivationRefrainment

This study reaches a level of understanding that it is not possible to analyse or scrutinize motivation without taking into account the decreasing levels of it. Moreover, in order to include the possibility of refraining from the illegitimate targets, for instance in some societies where abundance of financial opportunities exist but

relatively less financial crime occurs, we need to put the symmetric equivalents of the ‘*motivation*’, coded as ‘*refrainment*’ here²⁶⁰. We may denote ‘motivation/refrainment’ as MR.

$$\text{Motivation/Refrainment} = \text{Motivation} + \text{Refrainment}$$

Formula I.11: Motivations/Refrainment

$$MR = M + R$$

or

$$MR = [(I - A) + (F - A) \times 1/t] \times |Ep|^{\pm 1}$$

If for instance *MR* is positive for a given financial white collar person one may assume that the individual is motivated towards material targets. It should be noted that this ‘motivation’ includes not only the positive motivation caused by the need gap (*M*) but also the negative motivation (*R*) when the *perceived actual self* (*A_p*) is higher than the *feared self* (*F*).

In a similar vein, when *MR* is negative for a given individual in a certain financial situation, the individual is reserved and he/she is governed by his/her fears rather than his/her aims and targets. This alternative is outside the scope of our study²⁶¹. This side of the motivation can explain crimes with uncommon behaviours, psychologies, rationalities.

As the *actual, ideal and feared selves* approach ‘0’ the potential offender is stable, indifferent. As the volume of *MR* gets higher by means of higher ideal and feared selves, the potential offender is ‘*motivated*’ higher and as the volume of *MR* gets lower, the potential offender is ‘*reserved*’ higher.

1.3.4.4.2. DevianceCompliance

Until this code in the process of the grounding theory building, the discussion was not

²⁶⁰ In fact, *refrainment* is a byproduct of the behavioral model we used as the base model, the dynamic model we produced as an extension of it and the codes *feared self, guarding gap*. This process can be understood better by consulting Chapter 6.

²⁶¹ Because this study assumes that all financial white collar criminals act on materialistically-dominant utility functions.

about motivation towards crime but about the regular motivation towards legitimate monetary targets. However, the base coding and the relations shown by some of the formulae in the previous parts of this Appendix have dramatic and complex²⁶² effects on the crime motivation of the individuals.

Motivation is a positive word and concept. One may have a very high motivation and it is something to appreciate. Even if one's expectation of reaching an ideal self is very low this does not make him/her a criminal but may put him/her into a vulnerable position if he/she makes perception errors by expecting consistently better from his/her performance in the material world. People usually are not aware of these errors because they are in a continuously changing process of recalculations of ideal self, feared self, actual self, expected probability etc.

If someone is in *haste*, this is now a harder material problem for the individual to solve with the current means, abilities *etc.* Haste makes some irrational options rational because the individual's circumstances, his/her inner-self, targets, micro and macro position, forces him/her to crime. If there is no (zero) *haste* crime is not very likely to occur unless the value of the *target* is big relative to the *need gap* of the would-be-offender and the risks are lower than his/her *guarding gap*.

When the *patience* of the offender is high, then he/she has enough time to reach his/her *ideal self* in a reasonable time in the distant future. However, the intimacy of the vulnerable target's value is exempt from this rule and effective especially when the value is enough to bring the individual to a higher and distinct status in the society. Nevertheless, the effects of other dimensions are excluded here for the sake of parsimony and their effects may change the circumstances.

We may consider *deviance* in two different forms as well: passive and active deviance.

$D = \text{Deviance}$

$D = \{m_n, s_n, n_n\}$

Properties of the Category 'Deviance'

²⁶² Complex in the sense of sensible dependence on initial conditions.

There are two properties of deviance: passive and active deviance.

1.3.4.4.2.1. Passive Deviance

Passive deviance (D_p) is the disposition only. If all possible passive guardians are removed (e.g., the offender moves to another country with very few passive guardians) passive deviance shows the inclination of the would-be offender only. Active deviance on the other hand (D_a) is the deviance after the effects of passive guardians (G_p).

$$D_p = Deviance_{passive}$$

$$Deviance_{passive} = Motivation \times Haste$$

Formula I.12: Passive Deviance

$$D_{pass} = M \times H^{\pm 1}$$

or

$$D_{pass} = [(I - A_p) \times 1/t \times |Ep|^{\pm 1}] \times H$$

1.3.4.4.2.2. Active Deviance

While *passive deviance* (D_p) shows only psychological disturbance and inclination to crime, *active deviance* shows the readiness, preparedness for opportunities of crime.

Active deviance is what is usually meant by *deviance*, that is, somebody with all the inclinations and intentions to commit crime despite the *passive guardians* towards the *illegitimate targets*.

Offenders are under the negative forces of the crime *motivation* and the positive effects of the *capable guardians* in relation to financial crimes. As motivational forces overcome the forces of passive guardians then the mere existence of vulnerable financial assets would produce more delinquency, excluding the effects of active guardians. However, if motivational negative forces and guarding positive forces are balanced, then mere existence of financial opportunity would not produce financial crimes. We may denote *active deviance* by D_a .

$$D_{act} = Deviance_{active}$$

$$Deviance_{active} = MotivationRefrainment \times Haste - Passive\ Guardians$$

Formula I.13: Active Deviance

$$D_{act} = MR \times H^{\pm l} - G_p$$

or

$$D_{act} = (M + R) \times H^{\pm l} - G_p$$

or

$$D_{act} = [(I - A_p) + ((F - A_p) \times I/t) \times |Ep^{\pm l} / |^{\pm l}|] \times H^{\pm l} - G_p$$

1.3.4.4.3. Overall-Value of Crime

Overall-value of a financial crime for a given offender is the actual value gained out of the crime which is calculated by taking into account both gains and losses before and after it. Before crime occurs the offender has certain evaluations and assessments of crime. This is coded as *perceived overall value* in this thesis and usually after the crime all related punishments, depending for instance on full or partial apprehension and target value, with all or part of it for instance depending on the restrictions in the environment, occur. After the crime is complete the offender has a better or complete understanding of his/her situation, the environment of the financial assets, guardians, the value and other characteristics of financial targets. This new value is coded in this study as *real overall value* of the crime. *Overall value* after the crime affects the individual in three possible ways: it either increases or decreases the overall *need gap* of the offender or has no effect.

We may think of overall-value as *net gain* (or losses) rather than gross gains (or losses) out of crime by taking into account both the *target values* and *punishments* in all possible dimensions. While discussing the *individual* motivation, our assumption that all financial criminals run on materially-dominant utility functions holds, *ceteris paribus*. However, after the punishment we have to take into consideration at least the social dimension because people are social beings and cannot be indifferent to, for example, bad labels attached to them in their community and society such as

fraudster, thief, loser *etc.* If overall-value of crime is positive, it means all the positive gains from a specific criminal act outweigh all the negative losses.

There are, thus, two *properties* of the *category* 'overall-value of crime': (i) Perceived overall-value of crime; (ii) Real overall-value of crime. We do not symbolize these properties because we do not want to discuss them further in this study.

$V = \text{Overall-Value of crime}$

$\text{Overall Value of Crime} = \text{Target} - \text{Punishment}$

Formula I.10: Overall Value of Crime (Theoretical)

$V = T - P$

1.3.4.4.3.1. Perceived (Expected) Overall-Value of Crime

Perceived overall-value of crime is the *overall-value of the crime* that is calculated by all the perceived values of *targets* and *punishments*.

$V_p = \text{Overall-Value of crime}_{\text{perceive}}$

$V_p = T_p - P_p$

Overall, we may classify the vulnerability of crime situations according to the variations of overall-value of crime

(i) In crime situations where the *perceived* relative²⁶³ *overall-value is positive*, targets are vulnerable to all offenders and targets whose *perceived relative overall-value is negative* are *not* vulnerable to any offender unless they are under dire conditions;

(ii) In crime situations where the *perceived relative overall-value is not only positive* but also considerably big compared to the need gaps of offenders, targets are very vulnerable;

(iii) In crime situations where the *perceived relative overall-value is positive, big* (compared to the need gaps) and where *hasty* offenders exist, targets are more

²⁶³Relative in the sense of considering the specificities (*i.e.* perception errors about targets and punishments) of the offenders.

vulnerable than the previous situation;

(iv) In crime situations where the *perceived* relative *overall-value* is positive, big (compared to the need gaps) and where *hasty* and *able* offenders exist, targets are more vulnerable than the previous situation.

Following the implications of the grounded theory presented in this study, we may argue that it is hard to deal with crime by manipulating only the *overall value of crime* (e.g. by increasing the punishments attached to its illegal gain), because of the relativity of the values of *targets* and *punishments*. There is no agreed upon *net overall-value of crime*. One type of target may be important, valuable for one individual today and not valuable after a short while next week when circumstances change. This is why *guardians* cannot perfectly prioritise financial crime targets.

1.3.4.4.3.2. Real (Success or Failure) Overall-Value of Crime

Real overall-value of crime is the *overall-value of the crime* that is calculated by all the real values of *targets* and *punishments* and usually by the offender and after the criminal act.

$$V_r = \text{Overall-Value of crime}_{real}$$

Overall-Value Error

Overall-value error is the difference between the perceived and real overall-values:

$$\text{Overall-Value}_{error} = \text{Overall-Value of crime}_{perceived} - \text{Overall-Value of crime}_{real}$$

$$V_{err} = V_p - V_r$$

$V_r = T_r$ when crime is successfully committed and $V_r = P_r$ when the crime fails or if the offender is caught. Then, after the crime some adjustments are made. For instance, if the crime is a repeated crime, e.g. tenth year tax evasion, the gain from the crime is indeed the total gain including the financial gains from earlier crimes because this is crime in continuum. Some of the important adjustments are explained below in detail.

1.3.4.4.4. Total Overall-Value of Crime

Total overall-value of crime is the *overall-value of crime*, which is accumulated over a period of time. For instance effects of market entry deterrence may bring about financial gains to the culprit corporation even many years after all the legal punishments end.

TV = Total overall-value of crime

t = time of crime i

n = number of crimes committed by the offender

Total Overall-Value of Crime = ${}_{overall}Value_{t1} + {}_{overall}Value_{t2} + \dots {}_{overall}Value_m$

$TV = V_{t1} + V_{t2} + \dots V_m$

or

$TV = (T - P)_{t1} + (T - P)_{t2} + \dots (T - P)_m$

1.3.4.4.5. Relative Overall-Value of Crime

From the point of view of the generic term *overall-value of crime*, there is no agreed upon value of the *overall value of the crime*. Since the *overall-value error* differs from offender to offender, overall value of crime is offender specific and does not represent a single value that is valid for all the offenders.

1.3.4.4.6. Net Overall-Value of Crime

From the point of view of the generic term *overall-value of crime*, the crime does not yield a *net-value*, which is tasted and valued the same by all the offenders. Thus, the *overall-value of a crime* is certain (net) only for the real offenders and real time; if there is no offender; there is no net value of crime. Thus, all targets and punishments exist only at a specific time and space. Theoretically, without the individual and his/her environment, targets and their values are meaningless because there is no real person or situation to put them in a context.

1.3.4.5. Crime Motivation

Unlike RCT, this study does not presuppose crime motivation, and when it discusses crime motivation, it does not presuppose it as equal for all possible offenders. We show in this Appendix and in Chapter 6 why and how the motivation is differentiated from situation to situation and from offender to offender.

We may denote *crime motivation* with capital ‘*CM*’. This is a full motivation to commit crime because it represents an individual²⁶⁴ who is motivated for financial targets and under pressure of time constraints. Besides the individual in this stage of the dynamic process is not bounded by the alleviating effects of the passive guardians such as ethics, religion, social labels attached to deviant behaviour *etc.* In this situation the individual is already considerably weak against the attraction of the financial crime targets’ value and finally he/she comes up with financial targets in their financial crime opportunity space and realises that these targets are not inside the guarding capabilities of the active guardians. Thus, a financial crime may occur, but still, the individual may not yet have calculated the net financial gain out of crime. If the yield is not much relative to his need gap, then the crime may still not take place despite the vulnerable situation of the individual in this current environment and time.

CM = Crime Motivation

CM = Deviance_{active} × (Opp. Sp. for Crime – Illegit. Target Guarding Capability)

or

Crime Motivation = Deviance_{active} × Opportunity Space for Crime

Formula I.14: Crime Motivation

CM = D_a × (OS_{IL} - GC)

or

CM = D_a × OSC

²⁶⁴ Assuming that the individual’s ideal self is greater than his/her actual self, he/she has self-confidence and a relatively smaller guarding gap and he/she is in haste, is impatient and all the positive effects of passive guardians (*e.g.* his ethical position) do not restrain his/her motivation towards illegitimate financial white collar targets.

1.3.4.6. Act of Crime

Now, with the inclusion of *target* along with its various qualities, actual figures of crime may be modelled in our grounded theory. Unless the attributes of the target are taken into consideration, the dynamic representation up to this point does not produce crime, but it does not mean that those earlier stages are unimportant; conversely, crime is a complex phenomenon and strictly dependent on the initial conditions just like all other complex social phenomena.

It should be noted that the model quantitatively presented in this study is correct only under the assumption of the dominance of the material-utility dimension. There are inevitably situations where individuals with socially or morally dominated utility functions may not commit financial crime even under strict environmental circumstances. This is one of the areas for further study on this subject.

The act of crime occurs after the involvement of the targets and their attributes in the crime motivation. That is, the natures of the targets may be very tough and prevent the target from being acquired or very easy and enable the success of the crime attempt. We may denote the act of crime as ‘ C_A ’

$$C_A = \text{Act of Crime}$$

$$\text{Act of Crime} = \text{Crime Motivation} \times \text{Total Overall-Value of Crime}$$

Formula I.15: Act of Crime

$$C_A = C_M \times TV$$

or

$$C_A = \{D_a \times (OS_{IL} - GC)\} \times (V_{t1} + V_{t2} + \dots V_{tm})$$

Formula I.13 can be depicted in an explicit form as in Formula I.14:

Formula I.16: The Final Model of the Grounded Theory

$$C_A = \{ \{ \{ [(I_p - A_p) + (F_p - A_p) \times I/t_p] \times [Ep_p]^{t-1} - [(I_r - A_r) + (F_r - A_r) \times I/t_r] \times [Ep_r]^{t-1} \} - G_p \} \times (OS_{IL} - GC) \} \\ \times \{ (T - P)_{i1} + (T - P)_{i2} + \dots (T - P)_{in} \}$$

C_A = Criminal Act

I = Ideal Self

A_p = Perceived Actual Self

F = Feared Self

Ep = Expected Probability

t = time

H = Haste

G_p = Passive Guardians

OS_{IL} = Illegitimate Opportunity Space

GC = Illegitimate Target Guarding Capability (of Active Guardians)

T = Perceived Target Value (Legitimate + Illegitimate + A-Legitimate)

P = Perceived Punishment Value (Legitimate + Illegitimate + A-Legitimate)

GC = Illegitimate Expected Probability of Ideal Self Coming True - Target Guarding Capability

However, according to the model, still, the criminal act is not committed, completed or finished yet. Therefore, it is not known yet whether the crime is successfully completed or not, nor is it known whether the crime would or would not deliver the *perceived target values* of the *illegitimate targets*. In order to take the results of the criminal act into consideration for the repeated crimes or crimes in continuum we need to calculate return of crime to the individual.

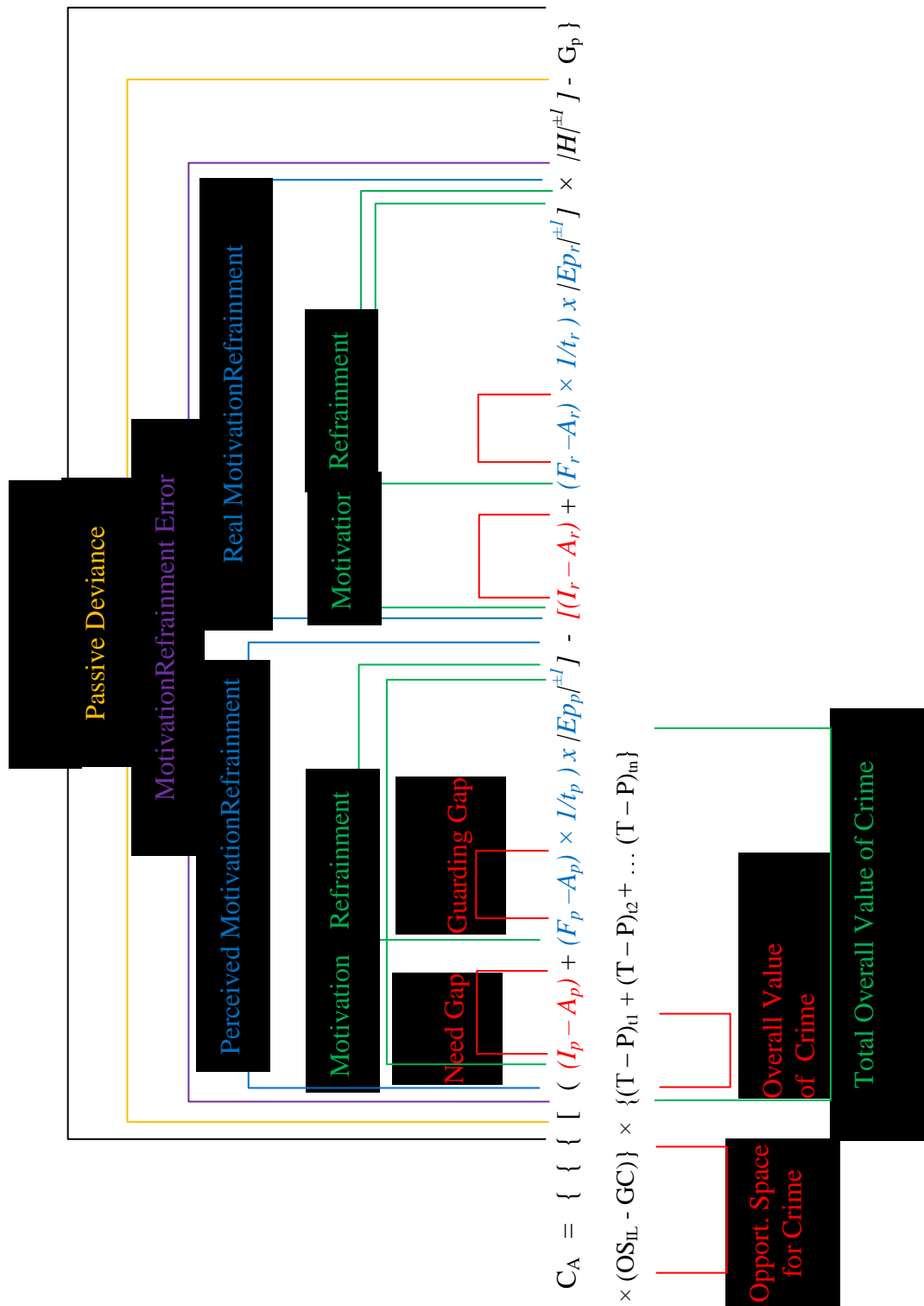
Please note that we differentiate ‘criminality’, that is propensity (D_a) and ‘crime’ (C_A) in our model. ‘Crime’ is an actual event in which a criminal act is committed. The model presented in Formula I.16 and its explicit form gives two results: *Success* and *Failure*. The model developed in this study, hence, might have included recidivism and repeated crime’s environment and motivation too. However, because of the lack of space, time and funding we leave discussion of those issues to further studies.

The codes produced in this study are shown on the model in Figure I.3 where a complex formula with many parameters are put into a mathematical relationship which explains inner selves, differences between them, perception errors and consequences of those errors to form the motivation model of individual behaviour first and then (beginning from the left) shows how this regular motivation move beyond the boundaries of reasonable behaviour and including haste and passive guardians the formula shows how regular behaviour turns into a deviant one. Eventually, the formula explains the consequences of deviant behaviour when it meets certain amount of opportunity spaces for crime, the guardians, certain value of assets and their punishment.

This final formula is shown in a stable environment because of the parsimony, space constraints and because the conceptual explanations about its dynamic nature are made in Chapter 6 where it is possible for the individual to fall/jump one standard variance below/above the socio-economic setting the formula runs and continuously readjust itself in runtime.

In fact, a more complex, dynamic formula was developed by this study but that part is not presented in this text because some of the relatively latter codes were not grounded on reliable data.

Figure I.3: Codes of the Grounded Theory on Final Model



I.4. OVERALL CODINGS

This Appendix has provided the foundational aspect of the grounded theory developed in this research in terms of the propensity of economic systems towards crime as well as the propensity and motivation of individuals towards crime.

The above theoretical exploration and the resultant coding are brought together here to provide an overall and combined look at the particularities of the model.

$$C_A = \{ \{ [(I_p - A_p) + (F_p - A_p) \times 1/t_p] \times |Ep_p|^{\pm 1}] - [(I_r - A_r) + (F_r - A_r) \times 1/t_r] \times |Ep_r|^{\pm 1}] \times |H|^{\pm 1}] \times (OS_{IL} - GC) \} \times \{ (T - P)_{t1} + (T - P)_{t2} + \dots (T - P)_{tn} \}$$

Below, certain parts of the formula are explained in a structural manner, beginning from the left building blocks. In this way, it is easier to comprehend the theoretical form of by improving the conceptual cornerstones one by one.

- $(I_p - A_p)$: Individuals try to reach an ideal material, financial status, *ideal self* which is away from their current financial position, *actual self*.
- $(F_p - A_p)$: Individuals also are afraid of being in a financial position distinctively away from their current position (usually one standard variance away).
- $(I_p - A_p) + (F_p - A_p)$: People are motivated by carrot (ideal self) and stick (feared self) and distances between them makes up the total motivational base for them.
- $(I_p - A_p) \times 1/t_p$: The material gap between the current and ideal positions can be shown as a requirement of material gain for every time interval
- $(I_p - A_p) + (F_p - A_p) \times 1/t_p$: The same requirement of material gain is valid for the gap between the current and feared financial positions as well. If the individual fulfils the total requirement of material gain for every time interval in a reasonable time he/she makes sure that he/she may not be afraid of the earlier feared position by attaining a better status in the society

$(I_p - A_p) + (F_p - A_p) \times I/t_p) \times |Ep_p|^{\pm I}$: People's qualities that are above the average of the same local socio-economic position such as education, experience, ability, capital let them move faster towards their material goals and when below average they slow them down.

$[(I_p - A_p) + (F_p - A_p) \times I/t_p) \times |Ep_p|^{\pm I}] - [(I_r - A_r) + (F_r - A_r) \times I/t_r) \times |Ep_r|^{\pm I}]$: All of the building blocks of the formula up to here can be calculated by including and excluding perception errors of the individuals. The difference between them gives the amount of risk the individual would find himself/herself in an unplanned situation with usually bad consequences.

$MR_{err} \times |H|^{\pm I}$: The long previous formula can be named MotivationRefrainment error and this risk of crime is multiplied if the individual is in haste.

$\{MR_{err} \times |H|^{\pm I} - G_p\}$: This urgent risk is affected by the passive guardians such as ethics, morality, solidarity, friendship, family etc. in the society before the deviant behaviour emerges. If passive guardians are not successful to decrease the level of risk or urgency motivation becomes deviant.

$\{\{MR_{err} \times |H|^{\pm I} - G_p\} \times (OS_{IL} - GC)\}$: Deviant behaviour searches for vulnerable opportunities of crime and when it comes up with vulnerabilities in its opportunity space the deviance is activated from its passive form.

$\{\{\{MR_{err} \times |H|^{\pm I} - G_p\} \times (OS_{IL} - GC)\} \times \{(T - P)_{t1} + (T - P)_{t2} + \dots + (T - P)_{tn}\}$: Active deviant individual makes calculations to know whether or not the value of the crime target exceeds the benefits and if it does, he/she commits crime.

Appendix II

CORRESPONDENCE WITH INTERPOL

Thank you for your email. INTERPOL's International Crime Statistics are no longer being made available to the public.

The decision to remove the statistics was taken *as some users* and some members of the media *were making comparisons between countries* based on these statistics, when different collection methods make such comparisons problematic²⁶⁵.

In response to your request, we would advise you to contact the UNODC who may be able to assist you with your query, or the national authorities of the countries of interest.

Regards,

Press Office
INTERPOL

²⁶⁵ Apparently, grounded theory literature is in conflict with this perspective.

Appendix III

A COMPARATIVE INTRODUCTION TO ECONOMIC AND FINANCIAL SYSTEMS: FOUNDATIONAL ISSUES

III.1. INTRODUCTION

This appendix is an introduction to the economic and financial systems from the point of view of financial white collar crime (FWCC) and rational choice. As comparison criteria, we use Gregory and Stuart's (1985: 12) parameters as follows:

- (i) Decision-making structures (i.e. centralized (authoritative, information loaded), decentralized (informative, information dispersed), mixed);
- (ii) Coordination methods (i.e. market, plan, mixed);
- (iii) Property rights (public, cooperative, private);
- (iv) Incentive and motivation mechanisms (i.e. material, social, moral, religious).

These factors of comparison are not only needed to bring important facets of economic systems under consideration and compare them in an efficient way, but they also lay down the mechanisms of economic systems which reveal the factors of the vulnerabilities regarding financial crimes, because different decision making structures, coordination methods, property rights and incentive mechanisms bring about different levels of opportunities for committing financial crimes. Thus, in addition to being an introduction to the economic and financial systems, these parameters are also a foundational base for the main vulnerability comparison of various financial systems in Chapter 7. The main body of the comparison follows this Appendix in Chapter 7 by using the criteria suggested by Punch (1996) and some additional extensions specific to FWCC.

III.2. ECONOMIC AND FINANCIAL SYSTEMS

In order to form a solid, well established discussion, let us define the terms we use in this part of the text such as ‘economy’, ‘organization’, ‘system’, ‘economic system’, ‘political economic system’ and ‘financial system’.

According to Mankiw (2003: 4, 3), ‘*economy*’ is “the study of how society manages its scarce resources”. The word comes from Greek, meaning “one who manages a household.” If we think of public material needs as the operational ground of an economy, political and economic institutions are the main players in it. Among them are financial institutions such as corporations, investment banks, insurance companies, stock markets, and governmental agencies. Karaşin (2009) puts these financial institutions into neat groups of seven as follows: (i) Regulatory authorities, (ii) Financial corporations (*i.e.* merchant banks, investment banks, financial intermediaries, asset managers, insurance companies etc.); (iii) All the corporations with excess or deprivation of funds; (iv) Institutional investors (*i.e.* mutual funds, investment funds, investment clubs, hedge funds); (v) Individual investors (high net-worth individuals); (vi) Speculators; (vii) Market centres (*i.e.* stock exchanges, derivative exchanges, central bank fund transfers, interbank money markets, SWIFT and other means of electronic fund transfers; (viii) Auxiliary services (*i.e.* clearance/settlement, IT, accountancy, audit and education). These institutions are organized forms of human interactions with economic and financial processes and outcomes.

If we have a better look at the ‘*organization*’ we see “a set of participants who regularly interact” (Borstein, 1971: 4) according to some messages named *rules* (stipulating or constraining messages for an independent period) and *orders* (dated messages calling for a specific response from the participants), “to accomplish a set of activities constituting the *purpose* of the organization”. There are mainly two kinds of organizations: ‘for profit’ and ‘non-profit’. In *economic organizations*, the purpose of the organization is ‘*profit*’.

Organizations, while interacting with each other, form systems. A *system* is “a collection of objects, ideas, or activities united by some regular form of interaction or interdependence” Borstein (1971: 4). In other words, systems are “combinations of certain integrated parts, running together to form organized transformation processes

that accept inputs and produce outputs for a common purpose” (Üstün, 2011). *Inputs, processes, outputs* are common to all systems along with *feedbacks* and *control* (Üstün, 2011). The historical trajectory of organisational and institutional development shows that different cultures build different organizations and those organizations eventually build distinct systems, as each culture brings different forms and substance.

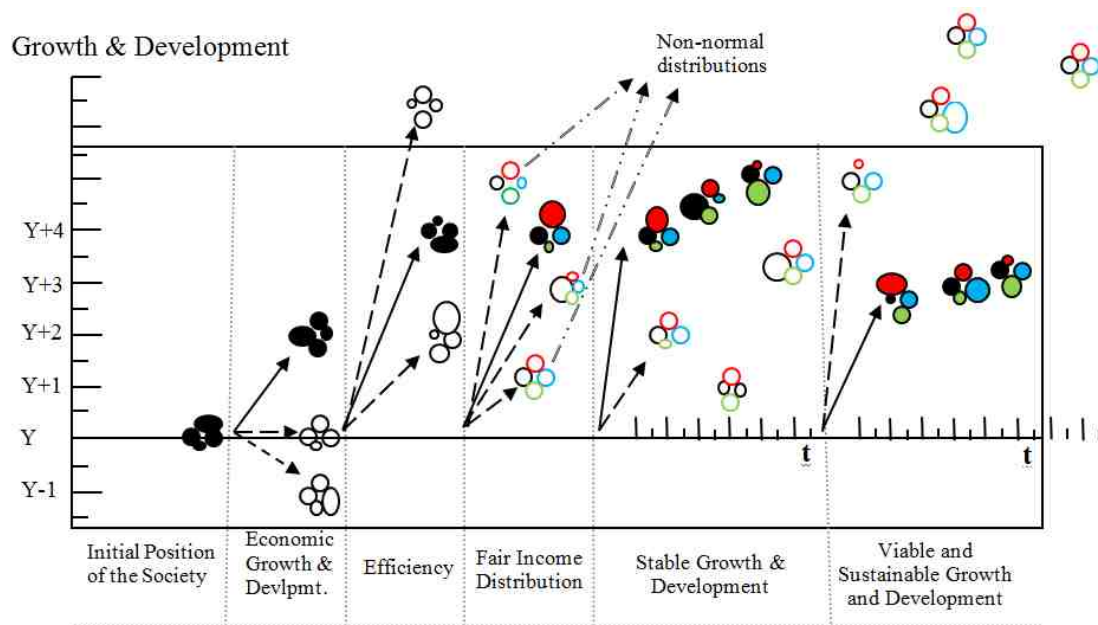
The word ‘*system*’ is from Latin ‘*systēma*’ and has many meanings. According to Bunge (1979: 16) one of the three definitions of ‘system’ is that “a system is a set of interrelated elements”. Bunge (1979: 16) argues that this definition is “fine for conceptual systems” like economic, social, political and financial systems. Other definitions, namely ‘a black box receiving inputs, producing outputs’ and ‘system as a binary relation’ are not suitable for our study because “the internal structure of the system is relevant” for this study and we study complex systems that are not easy to analyse in terms of binary relations.

Parallel to this definition of systems, Conklin (1991: 1) defines *economic systems* as “the organizational arrangements and processes through which a society makes its production and consumption decisions”. In other words, “Whether theoretically articulated and recorded or traditionally practised over years, ‘economic system’ is a static registration of how society organises itself to address the basic economic problems of what is to be produced, how many, how and for whom” (Nomia and Tahnama, 1994: 41). Indeed different designs of these means of production create different kinds of economic and financial systems and the variations of designs stem from the common social ideologies and belief systems or ontological and epistemological foundations. An *economic system*, thus, reflects “the interaction and participation of *individuals*, organizations and *institutions*” (Nomani and Rahnema, 1994: 41, emphasis added) in it.

Until now, the focus has been on the distinctions of economic systems, but economic systems do have many common features too. Performance, efficiency, income distribution, stability and viability are only some of them and they all have many consequences for financial crimes. Figure III.1 dynamically shows these commonalities between economic systems:

- (i) Economic growth (*i.e.* intensive and extensive);
- (ii) Efficiency (*i.e.* static and dynamic);
- (iii) Income distribution;
- (iv) Stability (*i.e.* cyclical stability, inflation, unemployment);
- (v) Viability (*e.g.* legitimacy, extent of the use of markets, corruption, social services, *etc.*)

Figure III.1: Common Aims of Economic Systems



Note 1: 'Y' at the y axis is the current, initial base of the position for every column;
Note 2: Circles represent the economic position of one individual and empty circles represent the alternative positions to be avoided.

All economic systems aim to achieve economic *growth* (moving upward from Y to Y+1, Y+2 *etc.* as a whole in Figure III.1) and use their potential *efficiently* (leaving no surplus energy for certain periods nor over-consuming it) and do it in a *stable* way, which means approximating a linear, continuous, positive, optimal growth line and avoiding deep ups and downs. There is almost no dispute about these common aims in economics literature.

Many economists also agree that the economic growth and development should be *viable* which basically means that the system operates within the legal, ethical framework of the society (*i.e.* nobody should be allowed to manipulate the traded goods and services for their benefit and society's harm).

It should also be noted that justice is considered to be part of economics too; as the justice between the members of the society in terms of their incomes and wealth accumulation. All the major economic systems agree that the just distribution of wealth is necessary but they disagree about the definition of justice in income or wealth. For instance market economies favour a free, *unrestricted* formation of *natural* justice in a free market, while socialist economies try to weed out the *unnaturally*²⁶⁶ structured system and form a justice under equality in income.

Our findings - especially about the ‘motivation’ part - of the grounded theory we produced in the previous Chapter, and our realisation about the implicit and *common* justice and naturality²⁶⁷ arguments of the economic systems force us to contemplate an alternative depiction of this commonality in income distribution and it is the prominent ‘normal distribution’ which is the mother of almost all quantitative²⁶⁸ analyses in statistics and all science. In fact, this common aim is so obvious that it is hard to negate it. If all the physical, psychological, social and cognitive abilities, talents, skills and competences are naturally distributed why would we expect a non-normal distribution of income in the first place while income is clearly an outcome of some or all of these factors²⁶⁹.

In this sense, the fact that we are answering our initial research question after trying to solve a theoretical issue proved to be very profitable, because these commonality discussions – especially the one about the natural and normal distribution of income - seems to be capable of producing a completely new economic theory with a strong criterion of success. We leave this discussion to further research and continue discussing the common features of the economic systems.

Consequently, all economic systems envisage that the income is naturally, justly, *normally distributed* among their members and that the growth is felt by those

²⁶⁶ Karl Marx sees communism as the next and more developed system after capitalism (a historical reality for him) but he also agrees that capitalism had many unnatural dynamics that should be weeded out such as income disparity.

²⁶⁷ It is possible to refer to some of the verses to put Islam into the same framework as well.

²⁶⁸ Indeed the results of the qualitative analyses are also by-products of natural, normal distributions, if we realise that the outlier answers to the open questions are just deviations from the mean ideas and are rare compared to the middle.

²⁶⁹ Beware that this argument does not single out socialism because – although not frequently advertised - all socialist countries applied a varied amount of income to their workers (see for instance Sertel, 1993) in many clusters but compared to capitalism, workers in socialist states receive earnings with small variations.

members, usually by the *development* of the society.

Let us now discuss the distinguishing features of the economic systems we compare, namely, market (capitalist) economy, transitional (socialist) economy and fully and partially Islamized economies. However, before doing that, we need to lay down the criteria of the comparison. Gregory and Stuart (1985: 12) supply a good list of such comparison factors as follows:

- (i) Decision-making Structures (*i.e.* centralized²⁷⁰, decentralized²⁷¹, mixed);
- (ii) Coordination Methods (*i.e.* market, plan, mixed);
- (iii) Property Rights (public, cooperative, private);
- (iv) Incentive and Motivation Mechanisms (*i.e.* material, social, moral, religious).

These factors of comparison are not only needed to bring important facets of economic systems under consideration and compare them in an efficient way, but they also lay down the mechanisms of economic systems which reveal the factors of the vulnerabilities regarding financial crimes, because different decision making structures, coordination methods, property rights and incentive mechanisms bring about different levels of opportunities and motivations for committing financial crimes.

While comparing financial systems by using these factors, we should address certain concepts for *macro systems* and attempt to answer some questions for micro systems. Among these concepts, we enumerate (i) framework *paradigms* (with ontological and epistemological sources) in terms of point of reference; (ii) *value* systems; (iii) foundational *axioms*; (iv) operational principles/*mechanisms*; (v) specific *methodology* and (vi) functional *institutions* for macro systems (Asutay, 2010, emphasis added).

For the elaboration of *micro foundations*, Asutay (2010) argues that the following questions should be answered while comparing financial systems by using the factors suggested by Gregory and Stuart (1985): (i) What *motivates* human beings? or the incentive systems; (ii) What is the fundamental principle of *rationality*?; (iii) What is

²⁷⁰ Authoritative, information loaded.

²⁷¹ Informative, information dispersed.

the role and importance of *self-interest*?, and (iv) What are the perceived consequences of *utility maximization*? (emphasis added).

Many economics schools scrutinize societies and they try to lay down the rules of the economic behaviour of the *homo-economicus*. Among them are: the Austrian School of Economics, Classical Economics, Environmental Economics, Evolutionary Economics, Feminist Economics, Historical School of Economics, Institutional Economics, Keynesian Economics, Labour Economics, Marxian Economics, Mercantilism, Monetarism, Neoclassical Economics, Reaganomics, Supply-Side Economics, Welfare Economics, Islamic economics, and many others. It is not possible to explore any of these schools in its fullness in this research, but this research inevitably compares some of them, since the foundational frames of some of these schools are already adopted by various economic and financial systems.

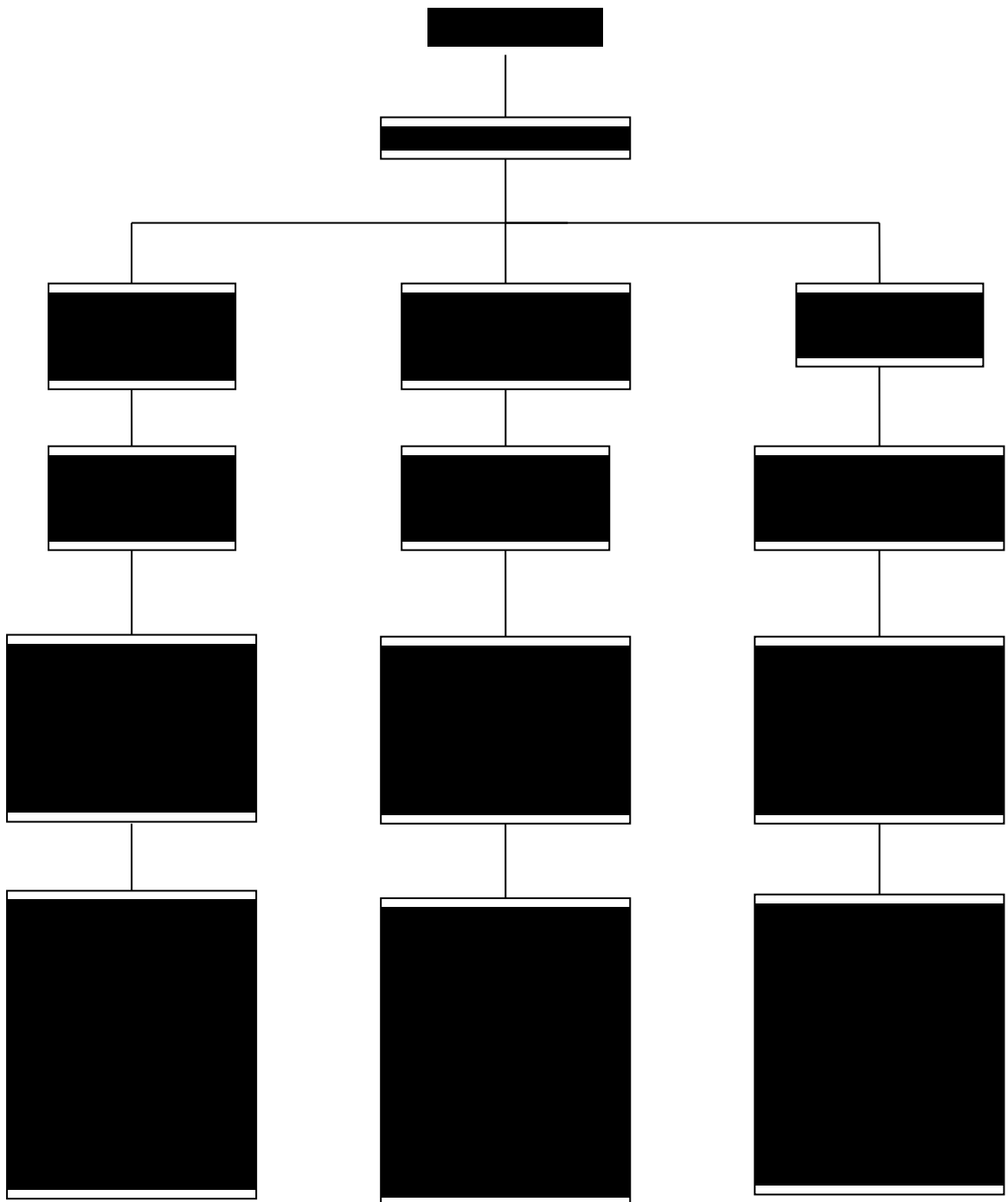
It is important to identify that politics is also an essential part of the economy, as economies always run under political systems and the goals are set by either/both national or/and international political order. Subtracting politics from economic systems is almost impossible, because such debates are “incomplete or misleading because economic systems are inextricably intertwined with other social systems and institutions, in particular political systems” (Arnold, 1994: 4).

Marshall (1890), who introduced *economics* formally into the literature by renaming political economy as ‘economics’, is not in favour of an integrated and comprehensive nature of economy and society framework.. According to him, economics “examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing” (Marshall, 1890: 1). Walras (1873[1954]) similarly argues that economics is pure and positive science. This view was popular but, later on, with the contributions of Keynes and Schumpeter in the 1930s, *political economy* returned as a powerful concept again. Especially in socialist literature, the involvement of politics is undeniable. Islamic literature’s view is more comprehensive and closer to Arnold’s (1994) perspective, basically claiming that all social systems are closely “intertwined with other social systems”.

Political economy is a well-established term in the literature and it is defined as “the study of the mechanisms used or usable by society to operate social economy” which

comprises of “the tools, institutions and human energies that produce goods and services” (Tabb, 1999: 15) and evaluates “non-economic factors such as political and social institutions, morality, and ideology in determining economic events” (Riddell *et al.*, 1991: 37). Figure III.2 shows various economic systems in their *political* and *social* context.

Figure III.2: Comparing Political Economies through their Actualisation



Source: Arif (1985: 81)

Before continuing let us remember that the ideal theoretical forms of financial systems and the way they function in practice differ a great deal. Some (such as Noam Chomsky) even argue that there has never been a true socialist country in the world²⁷². Thus, we make distinctions between the theory and the practice of economic systems. In this and the following subsections, namely, introduction to political economic systems, we continue to introduce the *theoretical* postulates and premises of economics systems and leave the differences of practice to the analytical parts of the text. However, practices that are in conflict with the corresponding theory are referred to when deemed necessary.

III.2.1. Capitalism, Market Economy and Finance in Theory

Capitalism²⁷³, as the name suggests, is an economic system with an emphasis on the ‘capital’ and the ‘capitalist’ who owns the capital and invests it. Although Arnold (1994: 5) suggests that the name ‘capitalism’ is misleading because “it is arguable that someone of some group is going to have to play the role of capitalist in any economic system”, he would not deny the fact that capitalism praises, defends, encourages and emphasizes capital much more than other economic systems.

The word ‘capitalism’ was coined by socialists (Brewer, 2009: 14); however, the form of it goes back to mercantilism in the 1500s (Fulcher, 2004), but the power of the saved value, most of the time in billions, was not alien to people at any time in the history of humanity.

In chronological order, Fulcher (2004) categorizes capitalism into three groups: (i) Merchant Capitalism; (ii) Industrial Capitalism; and (iii) Financial Capitalism.

Modern capitalism is not an entity in itself though; rather, it is an end result of greater movements such as individualism (Ebenstein *et al.*, 1994: 39) and liberalism (Heywood, 1998), which brought about the Reformation, in *religion*; physical sciences in *learning*; social sciences in *human relations*; democratic *governments* in politics; and the capitalist system in *economy* (Ebenstein *et al.*, 1994: 39).

²⁷² Chomsky argues that the means of production have never belonged to workers in Russia and workers have just been the subjects of the Communist party instead of being subjects of factory owners in capitalist countries.

²⁷³ We use the terms ‘market economy’ and ‘capitalism’ interchangeably although we are aware that the emphasis is different in their nature.

While analysing capitalism we should be aware that there are capitalisms in everyday life shaped by the different political economies of each country, rather than a single capitalism. However, the word ‘capitalism’ refers to the common features of many forms of capitalism, which ranges from the most liberal forms, such as the ‘laissez-faire liberalism’ of Adam Smith (Almond, 2006, 139), to the softest form of it, ‘state capitalism’, which refers to a system where the state owns the main sectors like “oil, steel, heavy machinery, telecommunications, aviation, and shipping” (Bremmer, 2009: 42). Figure III.3 is an attempt to sort these forms of capitalism according to their markets’ relative, independent formations.

In this ranking of political economies of capitalisms free market capitalism is below laissez-faire capitalism because the first one “assumes that economic transactions take place in a market that may be restricted in various degrees (Bradley and Donway, 2010: 72).

To appreciate the relative positions of the Anglo-American and Anglo-American-Plus distinction, we may refer, for example, to the *Financial Times* on June 6, 2000 where Italy and many other European countries were shown to open up their electricity market to the public and the UK 100 % of it. Still in 2014 (*Financial Times*, January 23) “Italy ... is going ahead with a 40 per cent sale of state-owned postal services operator Poste Italiane” which “decided last year to acquire 19.5 per cent of Alitalia in a recapitalisation that saved the privately owned airline from bankruptcy”.

Figure III.3: Ordinal Scale of Market Liberty of Capitalism

-
-
-
- Individualistic Capitalism (Langran & Schnitzer, 2006: 348)
-
- Laissez-Faire Liberalism (Schumpeter, 1991, 435)
-
- Laissez-Faire Capitalism (Skousen, 2001: 46)
-
- Free Market Capitalism (Rothbard, 2006: 301)
-
-
-
- Financial Capitalism (Cain, 1985)
-
-
- American Capitalism (Boyer, 1997: 74)
- Anglo-American Capitalism (Gray, 1993: 36)
- Anglo-Saxon-plus Capitalism (Pryor, 2005: 172)
-

Capitalism / Market Economy

- Merchant Capitalism (Fulcher, 2004)
-
-
- Regulatory Capitalism (Micklethwaith & Wooldridge)
- Regulated Capitalism (Kolko, 1976: 149)
- Regulatory-State Capitalism (Ikeda, 2005: 41)
-
-
- Welfare Economy (Marshall, 1919)
-
- Monopoly Capitalism (Harris, 1998: 415)
- Regulatory-State Capitalism (Ikeda, 2005: 41)
-
-
- Mixed Capitalism (Bornstein, 1974: 19)
-
- State Capitalism (Bremmer, 2009: 42)
- Swedish Capitalism (Fulcher, 2004)
-
-

III.2.1.1. Principles of capitalism

It is not feasible to cite all the details of a market economy here, remembering that all the generalizations are indeed compromises. However, as essential features, we may refer to individualism, liberalism, materialism, utilitarianism, positivism, competition, free enterprise as the main principles of capitalism or the market economy.

Let us now give the details of the market economy by using the comparison factors or the framework provided by Gregory and Stuart (1985: 12).

III.2.1.1.1. Decision-making structures

In market economies, decision making structures are *decentralized* implying that information is dispersed and mixed. The market economy favours free market mechanisms over centrally planned allocation. By means of price mechanisms, markets are considered to be in their most efficient form unless an external influence causes market failure. Markets are assumed to operate by the ‘*invisible hand*’, *self-interest* and *self-regulation* because “it is believed that market forces will themselves create ‘order’ and ‘harmony’, and lead to ‘efficiency’ and ‘equity’. The government should hence abstain from intervening” (Ayub, 2007: 38).

In its “purest” (Morrison, 2002: 86) form, laissez-faire capitalism²⁷⁴ means the “lack of restriction on activity” (Bradley and Donway, 2010: 71), of which the UK and the USA are good examples.

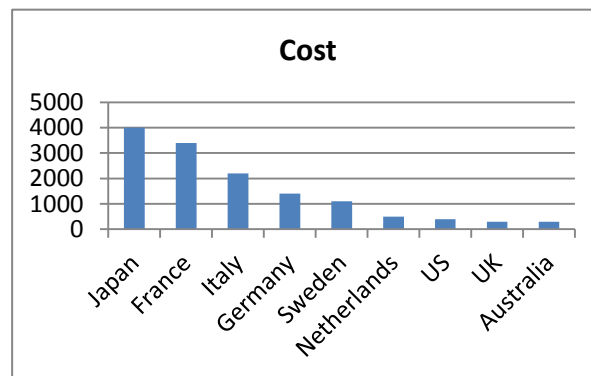
Pryor (2005: 172) puts Canada, Ireland, Australia, New Zealand, Switzerland, and Japan into the list and names it the “Anglo-Saxon-plus” advanced market economy. However, some economists argue that “capitalism in its classical laissez-faire sense does not exist anywhere” (Chapra, 2003: 17).

Nevertheless, all capitalists think that “[i]ndividual entrepreneurs are much less likely to flourish in an environment hemmed in by hundreds of bureaucratic regulations governing location and planning permissions, building requirements and employment regulations – all of which are referred to as ‘red tape’” (Morrison, 2002: 87). Graph III.1 and III.2 depict the cost of forming a private limited liability company and the number of weeks needed to do that in some of the capitalist countries respectively.

²⁷⁴ Originally “laissez-nous faire” [Skousen 2001, 46], meaning “let us do” or “leave us be”.

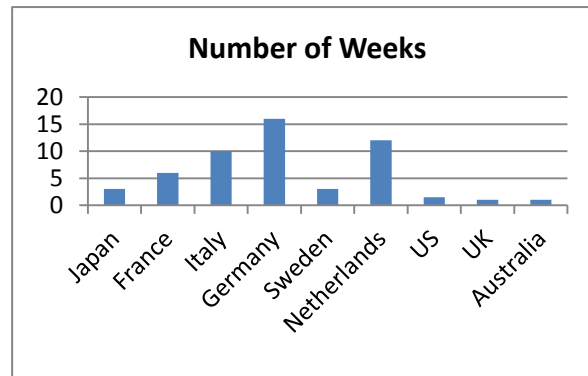
These figures can be considered as a few measures of the amount of ‘red tape’ in the economy or the measures of the level of laissez-faire capitalism. It is obvious from the figures that it is very cheap and fast to have a private company in market economies, especially in UK, US and Australia.

Graph III.1: Cost of Forming a Private Limited Liability Company in 1999



Source: Union of Industrial and Employers’ Confederation of Europe (UNICE), in Financial Times, 23 March 2000.

Graph III.2: Number of Weeks to Form a Private Limited Liability Company in 1999



Source: Union of Industrial and Employers’ Confederation of Europe (UNICE), in Financial Times, 23 March 2000.

This simplicity and quickness and other liberal policies of market economies do not suggest that governments have no role in the markets, but that they have a lesser role compared to other economic systems. “Government may tax, spend, and regulate a

great deal; nonetheless, most commercial activity has a strong private component” (Ebenstein *et al.*, Fogel, 1994: 39) in capitalism. Indeed, governments’ involvement can sometimes be more than the theory formulates. Alt (1983: 60; emphasis added) argues for instance that in market economies, “the Keynesian revolution was that policy makers *should manipulate* government expenditures to achieve a desirable level of aggregate demand”. Nevertheless, the theories of Keynes were abandoned after the 1980s in favor of Hayek and his theories with much less government involvement.

Consequently, this free of government intervention, short and easy access to market, individual and dispersed, uncontrolled, unplanned decision making provides financial agents, in theory, with a greater economic opportunity space for crime than socialism and Islamic economics, because information is shared by the whole entrepreneur society and the government behaves contrary to socialism, where very few people in the government decide and very many lack this privilege of information ownership which is crucial in *financial* crimes. In this, Islam is considered to be in the middle between market economy and socialism, but probably closer to capitalism, because the Islamic economy runs on markets and decision making is based on the individual, but further analysis is needed and this analysis is given under the discussion of Islamic economy.

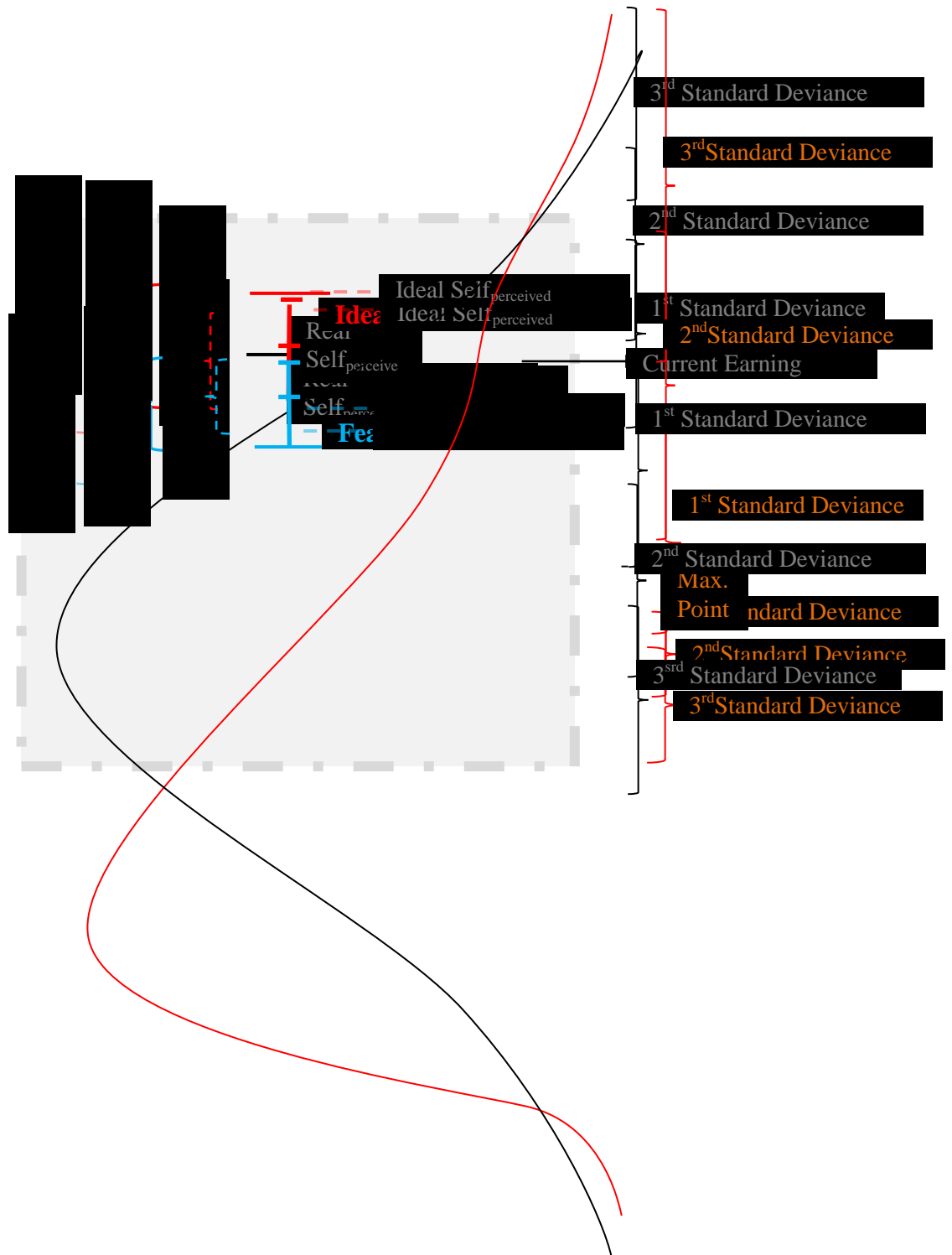
However, the condensed mechanism of decision making in place and time, in socialism, creates a great deal of opportunity for the few political and bureaucratic elite in it, which is comparable to the few white-collar criminals in capitalism; but, we may assume that the combination of the positions of rich and political elite in market societies may create a greater opportunity in market societies compared to socialism, and since the same group exists in Islamic societies, Islam then would be in the middle but closer to capitalism.

We discussed the decision making processes of market economy but all of these decisions about ‘what to produce’, ‘how much/many to produce’, ‘when to produce’ are made by using the *incentive* mechanisms in the *supply and demand* mechanism in free market societies. Let us now explain what those incentives are and how they operate.

III.2.1.1.2. Incentives and motivation mechanisms

Incentives can be depicted as a consequence of wealth distribution in the society as shown in Figure III.4. For instance, in Figure III.4 the same white collar individuals at the same position in the wealth distributions of societies depicted by black and red nonlinear graphs usually have relatively different levels of motivation, because the nonlinear variance in red wealth distribution society has a relatively higher standard variance of wealth compared to the society with black wealth distribution. In fact, in nonlinear distributions the same fact is observable in the same distribution by comparing different parts of the distribution. Details of the codes in Figure III.4 are presented in Appendix I and Chapter 6.

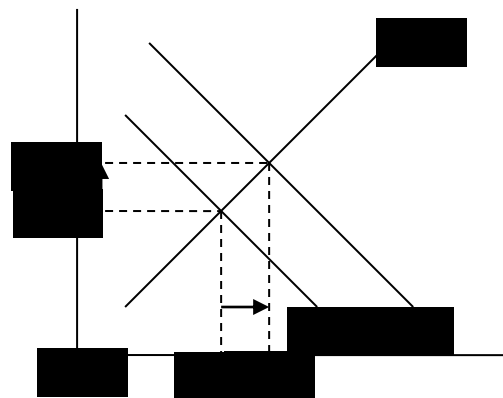
Figure III.4: Incentives Depicted as Distributions of Wealth in the Society



In capitalism, “authorities can facilitate business development in numerous ways, through incentives, ‘enterprise zones’ and advantageous tax regimes” (Morris, 2002: 87). People in general and entrepreneurs in particular are motivated by the private property ownership obtainable in the competition based market mechanisms of *supply and demand*.

Competition is “the essence” of the market economy (Morrison, 2002). Corporations compete for a bigger share of the demand in the market. *Demand* is what consumers potentially can afford to buy with the incomes they have and *market demand* is the total demand of all the individuals of the society. Supply, on the other hand, is about producers and denotes how much of what producers manufacture is offered to the market. *Market supply*, hence, is the total number of available goods and services produced in the market. Prices form in market systems by the relationship between these two forces. Figure III.5 gives a visual depiction of supply and demand.

Figure III.5: Supply and Demand and the Formation of Equilibrium Price



Source: Morrison (2002: 88)

Market economy holds that people prefer more of every product to less of it and behave in a way that is compatible with a marginal diminishing utility function.

This explanation may be enough to convey the micro incentive mechanisms of the market system. According to the theory, “changes in consumer tastes favouring the product will cause the price to rise” (Morrison, 2002: 89) and let new producers enter the market or old ones invest more, in order to get more share from the same market,

thus increasing the supply. This is the focal point where the incentive of working and producing comes from in market economies. Basically, investors look at the ‘price elasticity’ and ‘income elasticity’ and make decisions between available markets and products such as ‘normal’, ‘superior’ and ‘inferior’ goods/commodities.

Price elasticity and income elasticity can be expressed as a formula as seen in Formula III.1:

Formula III.1: Price Elasticity and Income Elasticity

The formula for Price Elasticity and Income Elasticity is completely redacted with black bars.

(6.1)

In capitalism, then, “the system aims to assure citizens that they personally will be the beneficiaries of their property and labour” (Morrison, 2002: 91) and links these incentives to the private ownership of the property. Thus, bluntly we may argue that in market societies, people are motivated by a modified version of the ‘stick and carrot’ method: ‘stick’ is not having, first needs, then wants, then luxuries and status symbols, while ‘carrot’ is having them all following the same levels in their order. For instance, many scholars (*e.g.* Patterson, 2010) believe that the market financial system is more vulnerable because of the positive incentives only (negative being the lack of positive).

Since all of these incentive mechanisms are material like financial crime gains, we may argue that the incentive mechanisms of market societies are the most vulnerable to financial crimes. The most distant system from the market economy in terms of incentive and motivation mechanisms would be socialism and the closest would be Islamic economy, because socialism uses a social-dominant utility function and Islamic economy a morality-dominant utility function. Rationales of these comparisons are clearer as we continue to analyse the factors of other systems.

III.2.1.1.3. Property rights

In capitalism, as seen in Figure III.6, means of production are privately owned and individually held. In addition to classic ownership of property, modern capitalism holds that the intellectual property is also privately owned and can be bought, sold and defended against copyright infringements.

Figure III.6: Economic Systems Categories by Resource ‘Ownership’ and ‘Allocation’.

		Resource Allocation	
		Market	Command
Resource Ownership	Private	Market Capitalism	Centrally Planned Capitalism
	State		

In capitalism, entrepreneurs and industrious individuals own more than others and thus more of the wealth is accumulated by fewer. This creates a concentrated ownership of the property, which can be turned into savings and used as a capital to own even more. This is why “wealth accumulation within capitalist systems has tended to concentrate in the hands of the few, producing a wide gap between rich and poor” (Morrison, 2002: 91).

According to *The Economic Times* (2009), “Bill Gates, America’s richest man with a net worth of \$50 billion, has a personal balance sheet larger than the gross domestic product (GDP) of 140 countries, including Costa Rica, El Salvador, Bolivia and

Uruguay...”, and “Gates’ friend and legendary investor Warren Buffett, [is] ranked second richest with a wealth of \$40 billion a fortune equivalent to the size of North Korea’s economy”. Both Bill Gates and Warren Buffett like many Forbes 400 members live in market economies where privately owned property may sometimes buy countries.

There is no doubt that unlimited allowance of private property is very vulnerable to financial criminality compared to socialism, because one would not even attempt to have more if it will not genuinely be his/her own property. Islamic economy again can be put in the middle but closer to the market economy because it allows private property but introduces a moral filter which associates ownership with the concept of *amanah* or trust in the sense that all the wealth is from God; and individuals in reality only have temporary ownership.

No economic/financial system is free from social problems and the problems that have stemmed from the usual operations of the system are tried and solved by some coordination mechanism and information supply and exchange between financial institutions, individuals and the state along with the ordinary financial information sharing. Let us now discuss such coordination mechanisms in market societies.

III.2.1.1.4. Coordination methods

Mainly, market mechanisms are the most important coordination mechanisms in capitalism. Even many governmental agencies act in the public market and compete for votes or popularity. If for instance certain policies of the police organization are unpopular, they are changed by the governments to ‘buy’ votes (Taylor, 1998). The public market decides who stays and who leaves in the polity market. In financial markets, the price is formed by the market mechanism and players make almost all of their economic decisions based on prices. However, public opinion is generally affected by governments’ and media’s policies. This is why “it is necessary to make some tacit or explicit suppositions about the accompanying political system” (Arnold, 1994: 4), while discussing market economies.

However, capitalism is sometimes called the “invisible-hand economy” (Knoke, 1996: 5), or “unhampered capitalism” (Mises, 1966: 836) or “free-market capitalism” (Rothbard, 2006: 301), because co-ordination and provision of information are almost

invisible in a society where “buyers and sellers have equal, full and complete knowledge of what they are buying and selling” (Randy, 1995: 4).

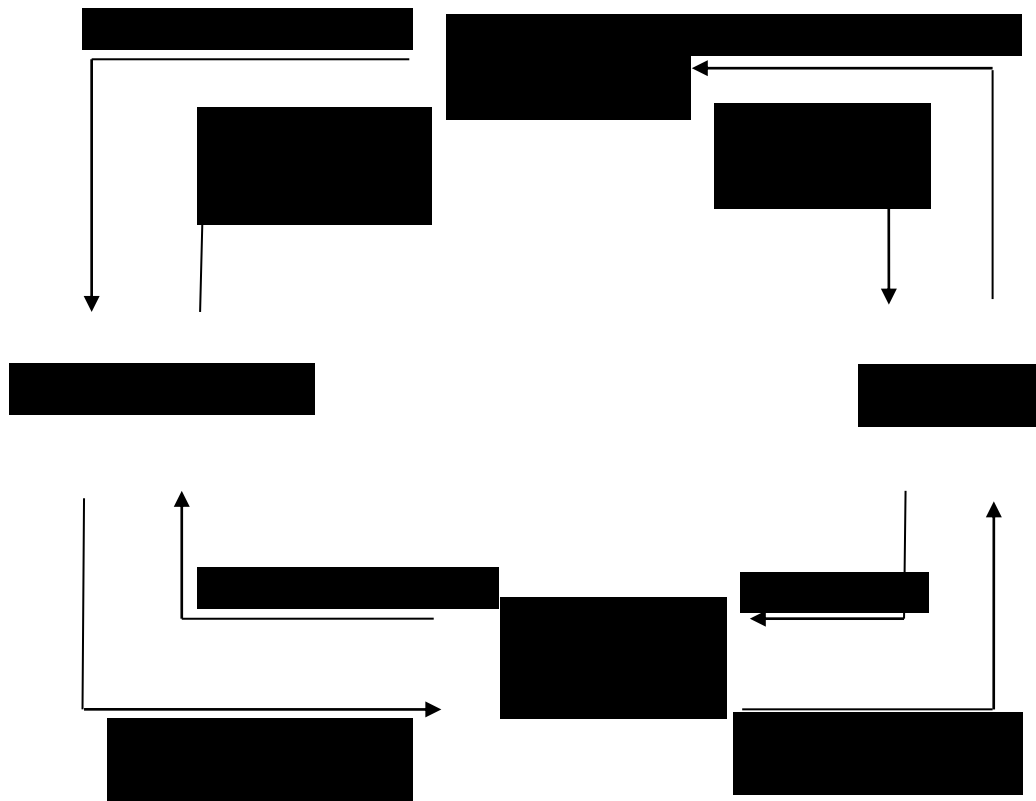
Nevertheless, some authors suggest that “of course, the ideal free market does not exist anywhere, has never existed anywhere” (Randy, 1995: 4) and that monopoly and monopsony conglomerates exercise huge power over the markets. Such “extreme inequalities ... which are inherent in the capitalist model have led to government intervention to protect the weakest in the society”. Competition authorities are examples of such interventions along with legislations, regulations to protect smaller firms in the market and “social welfare measures, such as income support and housing benefit” (Morrison, 2002: 91).

Because social welfare is not solved through the market mechanisms in market societies, it is left to “the government, [which] was viewed as a benevolent dictator acting in the best interest of the governed and in operational terms its problem was to choose levels of policy instruments that would maximise a given social welfare function” (Borooah, 1985: 32).

In other words, “politicians can acquire knowledge that would be necessary to promote economic stability” (Wagner, 2001: 424). This “traditional” approach also takes it for granted that “such knowledge will always and necessarily be put to good use, as illustrated by the pursuit of a program of the state acting to counteract the forces of instability that would otherwise destabilize a market economy” (Wagner, 2001: 424). However, governments’ involvement is not always recognized. “[I]n the conventional economic analysis, government is taken as an *exogenous* actor, which does not have any effect on economic analysis” (Asutay, 2010; emphasis in original).

Absence of government, even as a coordinator, in the economic decision making process of a market economy is shown in Figure III.7, which is a very common figure of ‘introductory economics classes’.

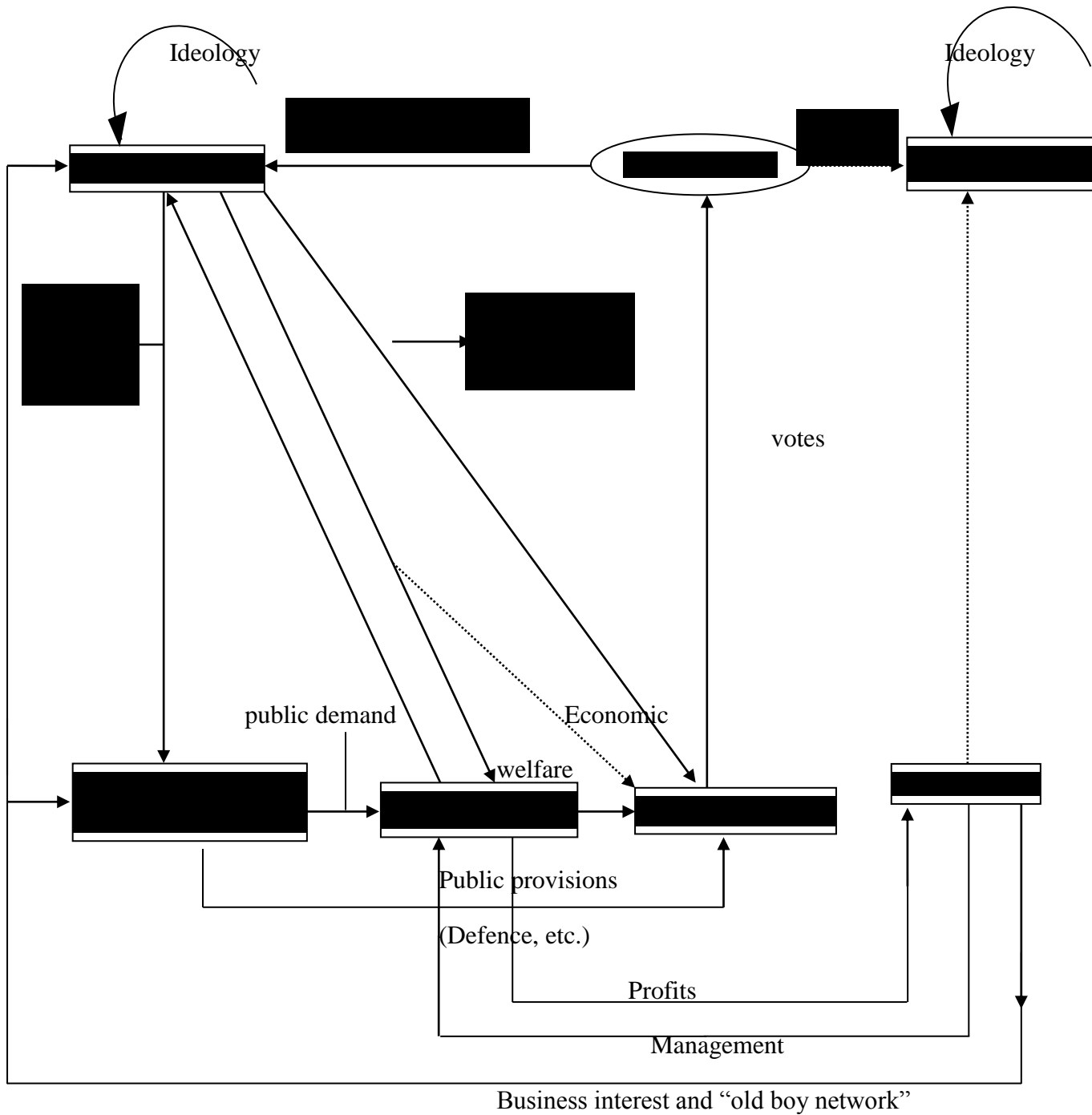
Figure III.7: The Circular Flow- Exogenous Government Model



Source: Asutay (2010)

The nonexistence of governments in this process is the coordination understanding of market economies, that is, politics and government have nothing to do with it. However, with the transition of some of the biggest market economies like the US (Bradley and Donway, 2010; Ebenstein *et al.*, 1994) a ‘new paradigm’ has developed according to which, “government, its institutions, and its actors, namely politicians and bureaucrats, are no longer perceived as aiming to maximize social welfare but their own self-interest in various ways” (Asutay, 2010). This (institutions) endogenised model is shown in Figure III.8 and is observed throughout in this study in order to both equalize the comparison base between capitalism and socialism, especially, and for the sake of acknowledging the complete system of political-economy understanding of the economy.

Figure III.8: Integrated Politico-Economic Framework, or Politicised Circular Flow



Source: Borooah and Van Der Ploeg (1983: 5)

Invisible government in the economy and self-organization are pretty vulnerable concepts to financial crimes compared to the full planning and control of the socialist system. An Islamic economy, on the other hand, not only allows government to freely

intervene in the market but sees this intervention as a necessity and takes it for granted when markets fail, which again positions the Islamic economy between capitalism and socialism, and closer to capitalism operation-wise, but from a consequentialist viewpoint it becomes closer to socialism. Overall though, when we consider Ibn Taymiyya's (1996) statements about the price being the 'price of God', we may argue that intervention, although taken for granted, is only consequentialist and exception, rather than rule. This puts the Islamic economy again in the middle but in terms of coordination closer to the market economy.

III.2.1.2. Criticism of capitalism

Many Western economists themselves accept that “[m]arket capitalism is plagued by social injustice. Large income inequalities, poverty, homelessness and mass unemployment are all characteristics of the advanced western economies” say Griffiths and Wall (1999: 680). A September 1999 survey by *The Economist* points out that “economic concentration presents a paradox of capitalism; the encouragement of individual enterprise is the incentive of capitalism, but business, if it grows too big, destroys incentives” (Morrison, 2002: 92).

In the first decade of the last three, “United States equity and Treasury markets have often been cited in the academic literature as examples of perfectly competitive markets involving numerous buyers and sellers acting as price-taker”, however, “[r]ecent academic research ... has focused on instances where this paradigm fails to hold” (Cherian *et al.*, January 01, 1993: 200). Indeed, prominent financiers think that they “do not believe in efficient markets” (Redleaf, 2010).

Capitalists criticize socialism for having a naive approach to human nature, but capitalism itself assumes that the markets are Pareto optimum, that there is perfect competition, markets are efficient and operate in a perfect information game etc. However, even if this premise is correct, Okun (1975: ii) argues that markets “award prices that allow the big winners to feed their pets better than the losers can feed their children.”

A whole literature has formed around critical theory, which argues that “it is to the unequal structure of our society that we should look in seeking explanations for crime. For those working in this tradition, it is capitalism itself that is criminogenic.”

(Newburn, 2007: 386). In a similar vein, Pearce (1976), Slapper and Tombs (1999) and others argue that the structural make-up of contemporary capitalism is an important explanatory factor in understanding corporate crime.

Undoubtedly, the institutions of the market economy have grown to be the institutions of all. For instance the IMF and the World Bank have more than 180 members, the WTO, similarly, has 153 members; however they are criticized for having a role in “contributing to the problems” instead of solving them (Harris, 1999: 200). Nevertheless, Shiller (2008) thinks that “markets are inherently somewhat unstable when we start thinking up really important new ways of doing financial business, they start to grow and they get huge, they get bigger and bigger before you know it”.

In this regard, we may argue that capitalism has more systemic risk of financial crimes compared to other systems. Let us further explain why.

III.2.2. Socialism, Transitional Economy and Finance in Theory

“Although systems change over time, the socialist-capitalist framework of comparison has until 1990 proven to accommodate the modest changes taking place in economic systems” (Asutay, 2010). However, after the 1990s, the tide from socialism to capitalism forced academia to search for terms better depicting economic systems such as ‘transitional’ economies. Thus, especially in recent years, socialism appears only scarcely in practice and when it appears, it appears in mild, soft forms only.

Many socialists believe that the heritage of socialism goes back to Plato’s *Republic*, Thomas More’s *Utopia* (1903) or early Christianity (Ebenstein *et al.*, 1994). However, in a modern sense, the origins of socialism go back to the 19th century when it emerged as a reaction against capitalism and the bad working conditions, capitalism brought about. Thus, socialism is “a product of the Industrial Revolution” and first received attention in Britain and France (Ebenstein *et al.*, 1994: 2).

Socialist economy is usually called a ‘command economy’ (Griffiths and Wall, 1999: 680), ‘planned economy’ or ‘centralised economy’. Among many versions of socialism, ‘utopian’, ‘Fabian’, ‘syndicalist’, ‘guild’, ‘Marxist’, ‘market’ and ‘democratic’ forms are only a few. We cannot explain all of them in detail here, but

Marxist, market and democratic socialisms are worth analysing for comparison.

Definition: Socialism, communism and transitional economy

Socialism is “the broadest of political ideologies” (Heywood, 1998). We may even talk about ‘socialisms’ (Heywood, 1998: 103) instead of ‘socialism’. Socialist ‘internationals’ are one of the reasons for the inflation of forms. Since the 19th century ‘internationals’ offered and helped form many kinds of socialisms. Recently, for instance, the term ‘transition economy’ is widely used to denote socialist countries, in place of earlier terms such as communism and social democracy.

The term ‘socialist’ is from the Latin verb ‘*sociare*’, meaning ‘to combine’, ‘to share’, which first appeared in a magazine called *Co-operative Magazine* in Britain in 1827. Socialism is a form of economic system in which government, as a representative of the society, owns and controls the means of production or plans a great deal of it. In a sense, the form of the socialism changes as various degrees and combinations of *ownership*, *control* and *plan* change. A system, for instance, is sometimes called socialist “even though the state owns only the large-scale means of production” (Bradley and Donway, 2010: 74). Heilbroner (1993, 101) defines socialism as “a centrally planned economy in which the government controls all means of production” and excludes ownership.

Although the popular time and place may be 1917 Russia in people’s minds, socialism was well established in 1830s England (Chapra, 2003: 107) and France. Denis (1973: 245) refers to 18th century France for the initiation of modern socialist ideas too. Today, however, socialism means being against capitalism (Brewer, 2009: 14).

Literature tends to first make a dichotomous categorization of mild and strict forms of socialism. Ebenstein *et al.*, (1994: 1-2) for instance argues that

There are at least two broad meanings of socialism. The first relates to collective ownership of the means of production either through worker cooperatives or state-run businesses. ... The second ... is a communitarian outlook of the proper way that society should be organized, as reflected in public assistance and works programs and projects of all sorts, and significant sovereign collective involvement in the lives of the people.

On the other hand, according to Heywood (1998: 104), “[t]he Russian Revolution of

1917 entrenched this split: *revolutionary socialists*, following the example of Lenin and the Bolsheviks, usually adapted the title '*communist*', while *reformist socialists* retained the name '*socialist*' or 'social democrat'. This distinction seems to be valid between Maoist China before the 1980s and Xiaoping China since then. The main difference between these two is that the first one seeks power through "revolution", while the latter seeks it "through the ballot box" (Heywood, 1998: 104). It should, therefore, be noted that China is an interesting case, as it is not a social democracy; in China there is only one party, the Communist party, however, especially recently, its system is called even 'Chinese Capitalism'.

Communism is similarly initiated by Plato in ancient times, and relatively recently by Marx and Engels, and the term comes from 1830s' Paris (Haywood, 1998: 124), approximately the same time as 'socialism'.

Haywood (1998) classifies 'communism' under 'socialism' and defines it as "a future society based on the common ownership of wealth and, possibly, the communal organization of social existence" or as "actually existing socialism" or "the regimes that communist parties established" which suggest no meaningful distinction from the definition of socialism itself.

Historically, we may argue that after the 1917 Revolution in Russia, socialism has been popular "in many developing countries that were still controlled by European Empires" (Newman, 2005: 4) and after its collapse in 1991, China, who had been communist since 1949 and ruled by Mao Zedung (1893-1976), has had the leading position of socialism in the world. Socialism is seen in North Korea, Vietnam, Sri Lanka, Sweden, Jewish Settlers in Palestine, Arab states, beginning with Egypt, post-colonial Africa, particularly in Ghana and Tanzania, and Latin America, especially Cuba where under the leadership of Fidel Castro a socialist model based more on the Soviet Russian model was built and has survived since 1959.

Socialism, in the last three decades, was represented mainly by China, Cuba and - for one decade only - by Soviet Russia. In the first decade, between 1980 and 1990, Soviet Russia was not only the sole leader of the socialist world but also one of the two superpowers of the Cold War era.

Cuba, before the very beginning of the 1980s, was a Soviet ally if not a Soviet state.

Latell (2005: 194) explains the Soviet-Cuban relationship as follows:

There was no denying of his [Fidel] affiliation with the Soviets. They provided about \$5 billion annually in economic subsidies. The 1975 estimate concluded there were five to eight thousand Soviet civilian advisers working in Cuban government, trying to jump start the still chaotic economy. Every year Moscow also gave another \$1 billion worth of free military supplies ... Several troops had fought in 1978 under the command of Soviet generals in the Horn of Africa, ... To his enemies Fidel was a Soviet pawn.

As we did in the previous section, we may depict many forms of socialism on an ordinal scale of market liberty. Such a scale, then, can be used to show the relationship between socialism, capitalism and Islamic economies as in Figure III.9.

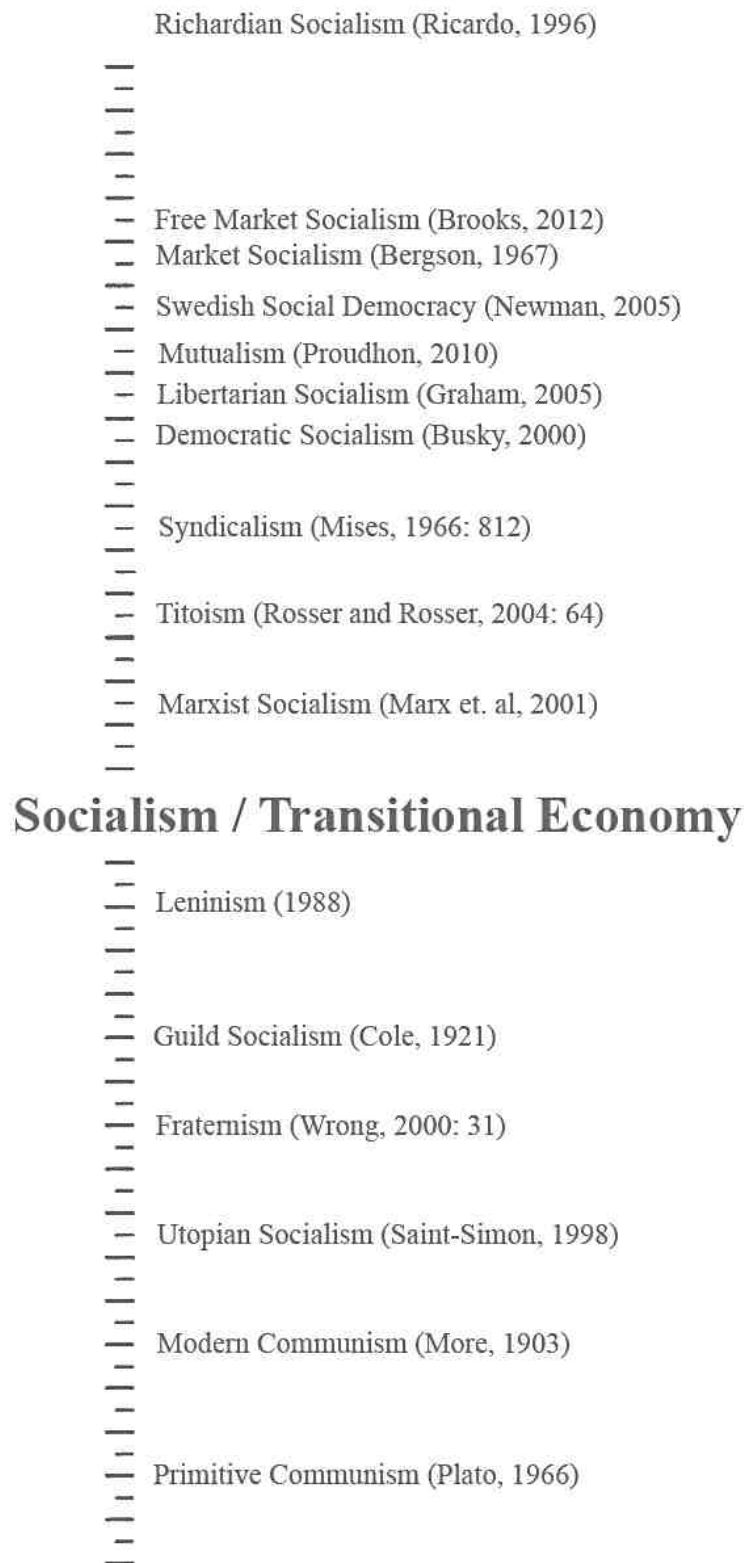
Libertarian socialists usually do not oppose private personal property but oppose state socialism and private ownership of the producing property. Titoism (Figure III.9) refers to worker self-management and profit sharing in a centrally planned economy and is above Marxism because of its more liberal views.

As a matter of fact, distinctions between the liberal and social interpretations of socialism get rather blurred. For instance Morrison (2002: 101), while explaining “social market capitalism”, writes that in the social market model of capitalism, there is;

- Significant state involvement in the economy;
- Bureaucratic regulation of business;
- Extensive social welfare programmes;
- Corporate governance based on social priorities, rather than shareholder value;
- A closed system of corporate control and little takeover market.

We cannot then help but argue that sometimes the distinction is psychological, cultural or even geographical rather than economic.

Figure III.9: Ordinal Scale of Market Liberty of Socialisms



III.2.2.1. Principles of socialism

Dialectical materialism is the main principle of socialism, because Marx and many other socialists believed that the history of mankind is the history of conflicting powers of material possessions in collective groups. Apart from dialectical materialism, determinism, positivism, materialism, biological and social Darwinism, dialectics, centralization, plan, rationality, egalitarianism and the emphasis on social causes and needs can be regarded as the main principles of socialism because scientism and rationality play a crucial role in every act of socialists and they always operate claiming the betterment of all rather than self.

III.2.2.1.1. Decision making structures

A socialist “society would have to manage not merely individual aspects of social life, but the whole of social life, in all its various activities, in all its aspects” (Marx and Engels, 1845/1975: 248). Information is loaded in the centre and many, if not all, of the important decisions are made in and by the centre formally.

Some prominent scholars (*e.g.* Hayek) argue that central decision-making for the whole society is not feasible but planning officers of socialist countries did make many central decisions. Among such decisions are “telling factories where to buy their inputs, how much to pay their workers, how much to produce and where to sell their output” (Griffiths and Wall, 1999: 680).

According to Griffiths and Wall (1999: 680), in socialist countries

individuals were trained in specialist schools and universities and directed to work at specific factories, which provided their wages, houses, health care – even holidays in enterprise-owned hotels and sanatoria; the national bank was told how much to lend to which factories and how much cash to print to pay wages.

As seen in Figure III.10, in socialism, resources are allocated by the state and the decision making, thus, is centralized, unlike capitalism.

Figure III.10: Categories of Economic Systems by Resource ‘Ownership’ and ‘Allocation’.

		Resource Allocation	
		Market	Command
Resource Ownership	Private		
	State	Market Socialism	Centrally Planned Socialism

However, we should note that in major socialist powers like China, market reforms are taking place, following the end of the Soviet Union (Morrison, 2002: 85). Thus, especially for the last few decades socialism means market socialism, because “hardly any avowedly socialist states [are] left, and even they, notably North Korea and Cuba, have made tentative steps to open up their economies” (Morrison, 2002: 85). We may then argue that both ownership and allocation were of the state in socialist countries before the mid-1980s but after the 1980s states left the ownership of the resources and retained the power of allocating resources.

In terms of financial crime, the most vulnerable group in the socialist state would be the higher government officials, because they can be seen as parallel to the richer strata of the capitalist and Islamic countries. These are the most vulnerable groups to financial white-collar crimes but their number is less than the number of white collar people in a market system, because in socialism it is not possible to have a corporation independently. All the corporations’ CEOs are government officials and communist party member politicians. Since all the managers of the big state firms in socialism are also government officials, numbers of white collar decision makers are few in socialism compared to a market system and thus the number of available white collar positions and individuals holding those positions decreases too. Market economies have corporate people in government too but they do not hold both of the positions at the same time, unlike socialist politicians. Thus, in the societies of the

same size we may argue that, in terms of decision making structures, socialism would be less vulnerable to financial crimes than Islam and much less than capitalism.

III.2.2.1.2. Incentives and motivation mechanisms

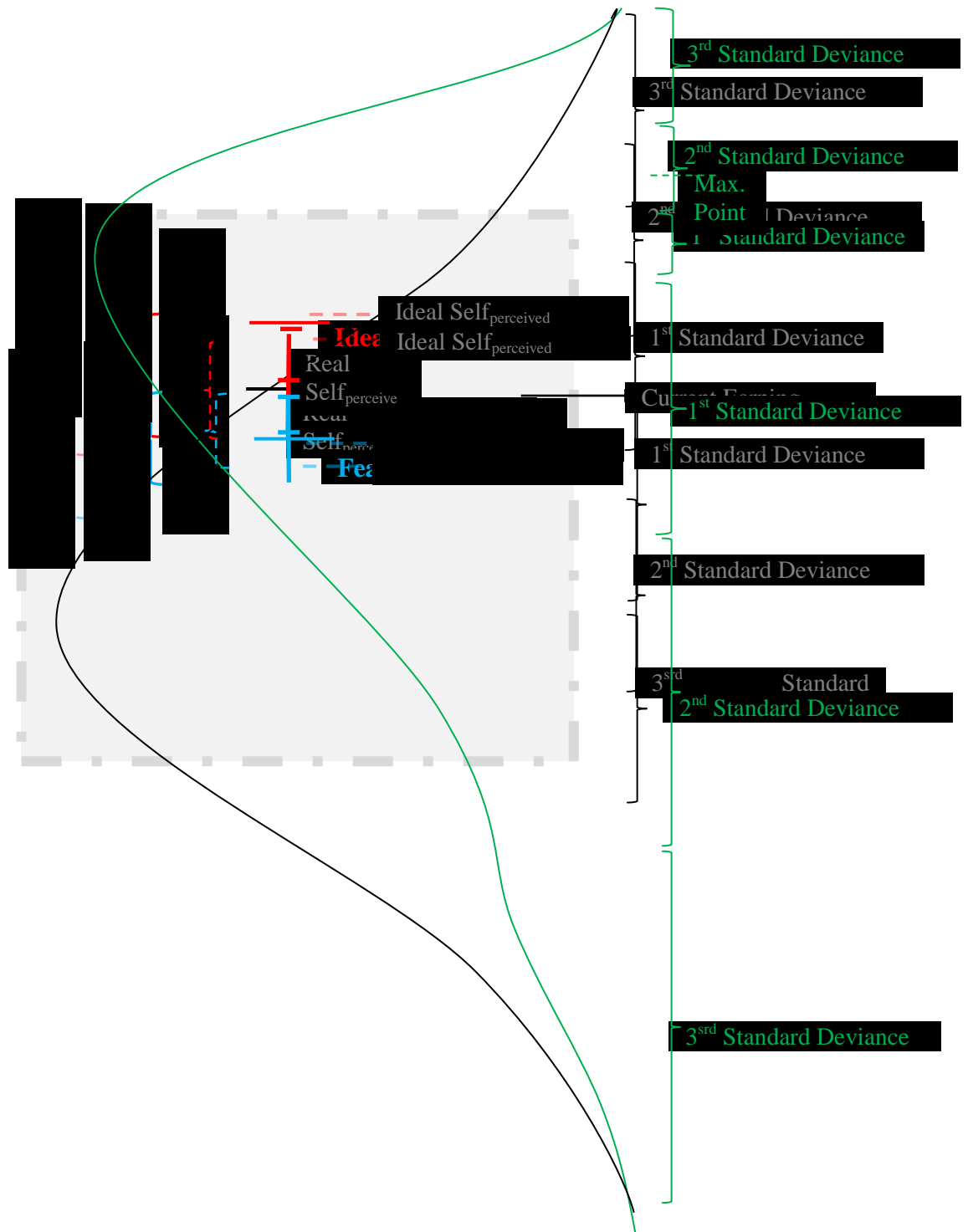
Incentives in socialism can also be depicted by using the same statistical method as in Figure III.11 based on variations in wealth distribution. This figure does show materially lower levels of incentives but socialism claims to overcome this shortcoming by the distributions of social relations, values and solidarity in the society.

Socialists, at first, shared the liberalist worldview with capitalists; however, through the course of time, they (Newman, 2005: 6):

dissented from two aspects of the liberals' outlook. First, rather than individualism, they tended to emphasize community, cooperation, and association – qualities that they believed to be jeopardized by contemporary developments. And, second, rather than celebrating the proclaimed progress arising from capitalist enterprise, they were preoccupied by the massive inequality that it was causing”

Incentive mechanisms in socialism are formed parallel to this departure from the common liberalism. Entrepreneurs and their investment habits in market societies are shaped by advertising and the demand is secured, labour is encouraged to work and individuals, in this way, buy the ability to buy more. In socialist states however, there is no advertising (BBC4, 2004). They use the same tool, ‘price mechanism’, for motivation, however this time the price of labour is the focus and not the investor. In many socialist states, factory workers are paid more if they produce more. We may, thus, argue that incentive mechanisms are microeconomically established in socialism, while they are macroeconomically established in capitalism.

Figure III.11: Incentives and Disincentives as Distributions of Wealth and Social Status in the Various Societies



In the conventional theory of the socialist economy, even macroeconomic equations are formulated by the labour force. For instance, as expressed by Formula III.2, the gross national income, or GNI, (Y) is determined by the product of employment (Z) and productivity (W) defined as gross value added per employee:

Formula III.2: Gross National Income Calculated by Labour Force and Productivity

$$Y = Z \times W$$

This *GNI* can also be “presented as the product of the real productive fixed capital (M) by the effectiveness of this fixed capital (E) defined as gross value added per unit of capital, or $Y = M \times E$ ” (Brus and Laski, 1965: 173).

In socialism, consumption, more than it is planned, is both discouraged and almost impossible to get, because “input and output prices were carefully set to ensure that all firms could pay their wage bills and repay loans from the national bank, while at the same time pricing consumer goods to encourage consumption of socially desirable goods (*e.g.* books, ballet, theatre, public transport, *etc.*), and discourage consumption of politically unfavoured goods (*e.g.* international telephone calls, cars, luxury goods)” (Griffiths and Wall, 1999: 680).

Regarding the supply-side, socialists claim the effects of “ratchets and bonus systems” as “incentive systems” (Collier, 1989: 26).

These incentive mechanisms, though, are not as powerful as those in a market economy or Islamic economy. We may argue that socialism motivates its members to be equal and thus static. This is considered to be one of the weakest features of socialism. We may form an analogy to be more explicit: the law of thermodynamics in physics postulates that the total equality of heat in the universe is the true end of the universe, and the fact that we have not seen this end yet is because of the heat imbalance. Socialism looks like the social equivalent of heat death or heat balance with the aim of equalising all of the members of the society. It creates this imbalance only barely and most of the time not explicitly because socialism tries to create an

egalitarian society and is not much concerned about the individual incentives people get but about the society as a whole. “If each of the enterprises achieved its production targets, there could not be, by definition, shortages or bottlenecks in the economy” (Griffiths and Wall, 1999: 680). This is what socialism focuses on. Because, as Griffiths and Wall (1999: 680) argue, then

[t]here would be full employment, with everyone working in an enterprise for which he/she had been specifically trained at school and university. The total wage bill for the economy, which was paid in cash, would be sufficient to buy all the consumer goods produced. There would be zero inflation and all the country’s citizens would have access to housing, education and health care.

Socialism, furthermore, expects its members to be self-motivated. Abolition of private property, which is considered to be harmful for society, should be enough to achieve such a human condition, because private property poisons the individuals and keeps them from acting for the good of the society. Thus, in socialism, absence of private property is considered to be an incentive mechanism, because people are supposed to maintain this balanced, equal society and would be motivated to work hard for the continuation of it. Socialists think that compared to its negation, namely, unequal, unbalanced and poisoned by private property, the option of working for the continuation of an egalitarian, equal society is favourable. As is known also, socialism favours ‘labour’ over ‘capital’, because people are born with labour and labour is relatively easier to equalise, at least fuzzily. On the other hand, it is not possible to have an all-rich society. If everybody is rich then everybody is equal, but if everybody is equal nobody is rich because richness is a relative concept, it does not exist in itself.

It should be noted that socialists have an emphasis on solidarity, cooperation and equality. They “have always rejected views that stress individual self-interest and competition as the *sole* motivating factor of human behaviour in all societies at all times” (Newman, 2005: 3).

Nevertheless, this way of thinking fails to distinguish the values of and thus imbalance between the labours of astronauts, giants of literature and peasants. According to Newman (2005: 3), socialism has a rather optimistic view of human nature. This is obvious especially for the utopian versions of socialism like those Robert Owen (1771-1858) in Britain and US, Etienne Cabet (1788-1856), Henri Saint-Simon (1760-1825) and Charles Fourier (1772-1837) in France supported.

In these utopian forms, ethical and aesthetic *idealism* are “expressed by writers like John Ruskin and William Morris during the nineteenth century ... Ruskin ... sought an older and more traditional way of life, one in which natural and other forms of *beauty* would come before the economic bottom line” (Ebenstein *et al.*, 1994: 3; emphasis added).

William Morris for instance “kept his gaze closer to the ground. He saw around him *ugly* household goods and furnishings and men and women who lacked joy and beauty in their daily lives.” “Particularly in town and country planning, the British Labour party has reflected directly and explicitly the message of Ruskin and Morris ... community planning – more than tearing down slums and building **neat** little row houses of uniform size and style” (Ebenstein *et al.*, 1994: 3, emphasis added).

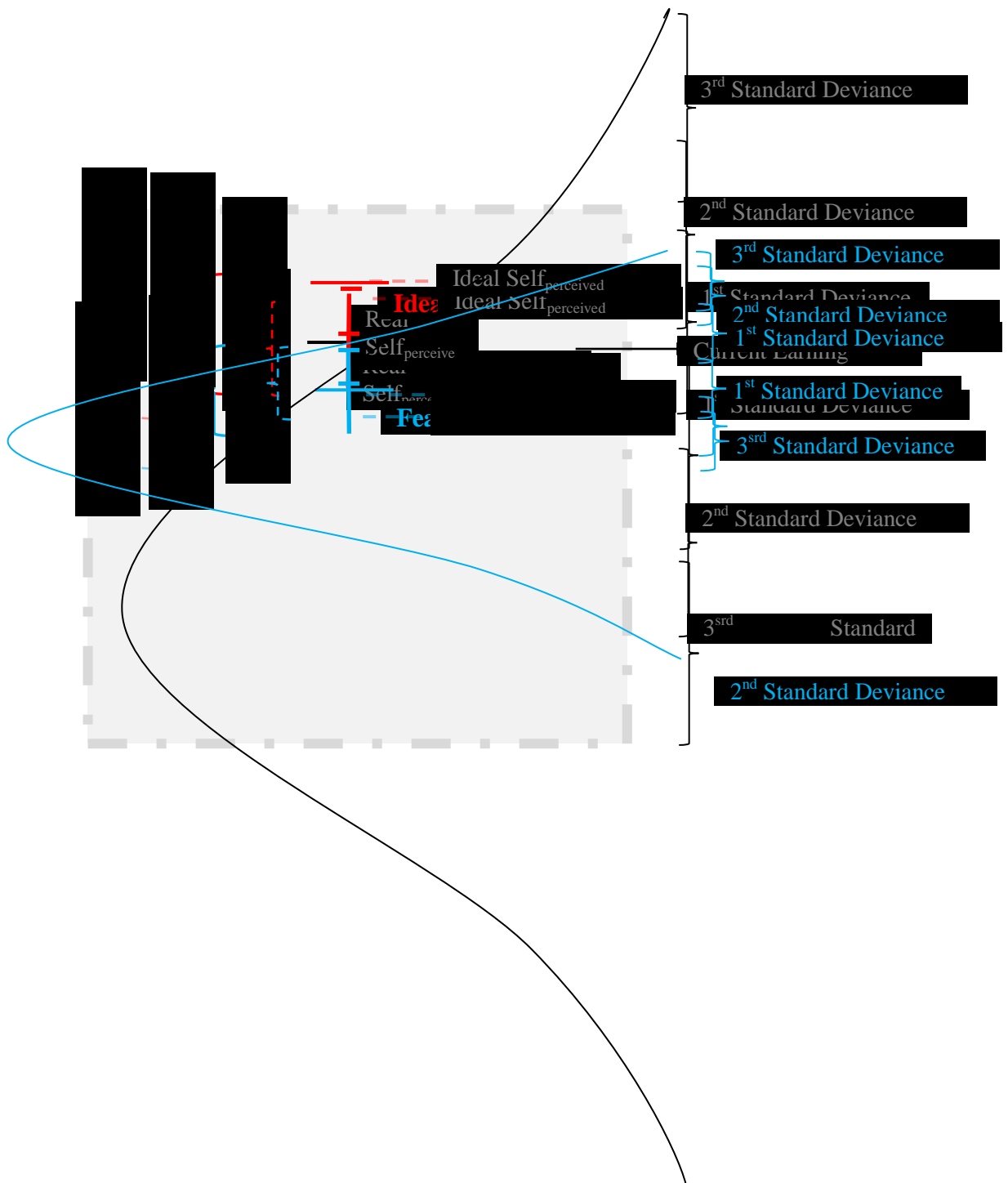
This pursuit of beauty is considered by many socialists to be pervasive in society. If so, the society would follow the beautiful. This sometimes oppressive beauty pursuit can easily be observed in Hitler’s national socialist practices too. Especially these utopian versions show that socialism is committed “to the creation of an egalitarian” (Newman (2005: 2) and not necessarily industrious society.

In an environment of no advertisement, hardly any competition, very few status symbols, restricted number of products and the official promise of full supply of basic needs, we may argue that incentive mechanisms would be very weak. This should be valid for committing financial crimes, compared to both of the other economic systems, because in socialism, the whole society labels the ‘wealth discrepancy’ as the worst evil of all and constantly broadcasts the superiority of being equal and social. In this sense, Islam would be second to socialism, because of its relatively lesser emphasis on equality and the deteriorating effects of wealth, and capitalism would be the last.

III.2.2.1.3. Property Rights

In socialism people have property but the kurtosis of the distributed property in the society is very high and the variation is very low, as shown in Figure III.12.

Figure III.12: Different Levels of Property Ownership as a Consequence of Various Kurtoses in Financial Motivation



The changing nature of firm ownership in recent centuries (i.e. from individual or family owned firms to conglomerates collectively owned by people from various countries) is argued to be a reason why the world has had socialism as an economic system in the last century, because socialism offered a solution to the problem of ownership by which people and states could compete with their huge enterprises and production capacity. The solution was collective ownership both in the market economy and in socialism but with differences of application.

In socialism (*i.e.* in USSR and Cuba) everybody, even waitresses or state officials live on a state salary. Currency is produced by the government and allocated for the whole population as salary periodically; in return, the whole population works in publicly owned jobs. There are slight variations of this: for instance, in Cuba and China, there are two different currencies one of which is convertible and intended for tourists.

However, this does not mean that people have no private property. There is currency, salaries and thievery, because one can buy and own certain things in socialism, contrary to the common perception. For instance in Cuba, people have their clothing, TVs, furniture, bicycles *etc.* some of which can even be used as a means of production. For instance, in Cuba bicycle-taxis (a man-powered vehicle) can be hired by the local people to earn money. Nevertheless, private property is very much restricted. Other than these and similar other small properties, everything belongs to the public sector, or if not, independent use is extremely limited. For instance, in 2010 in Cuba one cannot have extra people in one's house and charge them rent without informing the government; they also cannot slaughter their cows for meat because the government plans them for milk production.

Historically though, in terms of property ownership, there has been an evolution from small, individually-owned corporations to conglomerates in the last few centuries.

In the England of John Locke or the America of Thomas Jefferson, the average farm, store or workshop was generally small enough to be owned and operated by one person or family ... As the nineteenth century progressed however, the individual (or single family) form of ownership and work was gradually replaced by an economic system in which large-scale enterprise grew larger and larger, work became more and more collective, while ownership remained private. (Ebenstein *et al.*, 1994: 3).

In order to cope with this issue, two main methods could have been adopted, as

argued by Ebenstein *et al.* (1985: 5):

- (i) The division of large-scale enterprises into small units; so that work and ownership could coincide again in one person or family;
- (ii) Collective ownership could be introduced.

In fact, the very first appearance of socialism, as a concept, in *London Co-operative Magazine* in 1827 was about “whether it was more beneficial that capital should be owned individually or held in common” (Newman, 2005: 6-7). Karl Marx, similarly, argued that “in capitalist societies the state is controlled by those who own the means of production. Consequently, the interests of the population as a whole could only be properly served if such ownership were assumed by the state” (Jones, 2006: 232).

Socialism, thus, holds that the relationship between capital and labour is not individual but *structural* (Brewer, 2009: 16), meaning that the capitalist owns the capital in the capitalist *system* and workers are under constant pressure in this system, because of non-individual, structural reasons. Within the theory of historical materialism, *communal* ownership in ancient times first suppressed slaves, then after this conflict the synthesis of *feudalism* was reached, with the conflicting powers of serfs and feudalists, which then brought about the conflict between bourgeoisie and proletariat of the synthesis of *capitalism*, then *socialism* and eventually *communism*. These events in order can form a summary of dialectical historical materialism. According to Marx, conflict between certain ‘haves’ and ‘have-nots’ of the society determine the history of mankind. Thus, the refusal of private property is at the heart of socialism.

To some socialists, “the ideal commonwealth is Plato’s Republic” because “its ruling class has no personal property and shares all things” (Ebenstein, 1994: 2).

Socialists basically argue that banning private property would abolish the tensions between these conflicting powers and bring about a balance and peace to humankind. Some socialists, such as Robert Owen (1772-1837), even “believed that it would be possible to *abolish money* and replace it with ‘labour notes’, which would represent the time spent in work and would be exchangeable for goods” (Newman, 2005: 12).

In socialism all the means of production are publicly or collectively owned and

resources are allocated from a centre equally for everybody according to their needs, while they are privately, individually owned in capitalism and distributed according to the market dynamics as shown in Figure III.13.

Figure III.13: Categories of Economic Systems by Resource ‘Ownership’ and ‘Allocation’.

		Resource Allocation	
		Market	Command
Resource Ownership	Private		
	State	Market Socialism	Centrally Planned Socialism

From an optimistic point of view, socialism may be said to provide a technology
Shiller (2010):

that works to eliminate risks, to spread them out, to pool them, to share them among many different people. So the ideal that theory suggest - and it may be unreachable - but the perfect financial system would have all of our risks pooled completely. That is nobody suffers alone. If anything happens to me in my livelihood, it spreads out over everybody and everybody that means the whole world. Whatever happens to me, when it is spread out over six billion plus people it ends up divided by six billion and it becomes unobservable. It becomes so small that it is meaningless and that is the ideal. That is ... even leaving the risks as they are and just sharing them better.

Although these words belong to a finance course in capitalism, they can be euphemistically taken as the optimistic intentions of socialism.

Consequently, we should be aware that it is not only the ownership of the property that should concern us, the control of the property is also important while determining socialist characteristics of an economic system because “[a]fter all, what does

ownership of property entail if not the right to determine how it is used?” (Bradley and Donway, 2010: 78). In this sense, the Islamic economy can be put between capitalism and socialism, because Islam recognizes property rights in everything, including the means of production, but restricts and controls them officially, morally and socially.

III.2.2.1.4. Coordination methods

There are different levels of planning in socialism. Classical socialism favours full and central control of all commodity, labour and financial markets over free market mechanisms; however, market socialism allows quasi-free markets for the allocation of goods and services. Central planning is possible by “administrative commands expressed in real terms” (Borstein, 1971: 3).

In Marxist socialism, markets are controlled because Marx sees everything as a product of historical materialism and Marxian dialectics, because the history of humankind is the history of class struggle (Marx, 1848) and existence is not determined by the consciousness of men but by their social existence (Marx, 1859), meaning that the social relations of production *determine both* the patterns of thought and the levels of consciousness (Naqvi, 1994).

This kind of coordination produces better use of materials and eventually brings about better forms of historical materialism in the future. Socialists support communal instead of individual practices and decision making, believing in such a way of coordination. This requires a gatherer, a planner, and a central coordinator. This is why “certainly one cannot specify a socialist economic system without describing some elements of the state apparatus, at least at some level of abstraction” (Arnold, 1994: 4).

In socialism everything is planned by the state “elegantly” (Griffiths and Wall, 1999; 680) “[u]sing ‘input-output’ analysis (a planning framework which calculated the inputs required for each factory in order for it to deliver its planned outputs to the next stage in the production process), the planning ministry could calculate precisely how much labour, capital and raw materials each enterprise required to achieve its production targets. The various production targets for raw materials and intermediate and final products all fitted together to ensure a perfectly balanced expansion of

economy” (Griffiths and Wall, 1999; 680).

Thus, in socialism, everything is coordinated according to a static plan, compared to a dynamic one in market societies and Islam, which includes a certain relative standard of living for certain labour groups in the society. A good example of such standards can be observed in Moscow, until 1992. Narkomfin Communal Houses with identical apartments for the officers of the same rank are good examples and they also reflect²⁷⁵ the outlook of the state at the time because they were built to “induce desired by reforms” (Burhli, 1999: 146). Since these standards are changeable by command, arguably, there is less need for frequent interaction with financial institutions and financial products, because all domestic debts and credits are indeed of one firm, named as ‘the state’. Thus we may argue that the frequency of financial interaction in the coordination dynamics of socialist finance is weak compared to other financial systems.

However, this does not mean that in socialism there is no finance market: the market exists, because a miniscule form of private property²⁷⁶ is exchanged and traded. Such practices are the reason why small variations of wealth exist in the society but the main source of distinctive wealth is possible, for instance in Cuba, from external sources only, such as selling an art work without informing the government, which is tantamount to committing crime. Thus, without committing crime, wealth accumulation is almost impossible in socialist countries and this is what the government really wants to do: ‘curbing all material imbalances’.

Consequently, in socialism coordination mechanisms are not diverse even in its ‘market socialism’ version, because (Arnold, 1994: 5):

a crucial difference between the most defensible form of market socialism and a free enterprise system is that the former, but not the latter, mandates by law a certain type of economic organization, the self-managed cooperative. By contrast, in a free enterprise system, production can be and is in fact organized through a variety of different organizational forms.

Within the framework of top-down plan and management and order-following mechanisms with no runtime effects on financial markets, we may argue that in the

²⁷⁵ Buchli’s book is published in the series titled ‘Materializing Culture’.

²⁷⁶ In some socialist countries private cars were allowed as well but no more than this much property accumulation was allowed or was seen in a very limited fashion. (Wilson, 2010).

lower levels of the economy, socialism does not allow great financial opportunities. However, the top strata of the socialist society, which comprise of top state plant managers and politicians, are an exception to this rule but their number, especially the number of CEOs, are considerably less compared to capitalist societies because capitalist markets are open systems and they allow in and out flux to/from outside of the national markets and allows competition inside. The issue, again, comes down to the comparison of the white-collar strata of the societies. If we assume that this white-collar top layer stratum of the society is lower in socialism compared to both Islam and capitalism we may say that in socialism it is less likely to come up with financial crimes. This argument obviously puts Islam in the middle where coordination is both top down and at the runtime and capitalism at the extreme end where the whole process of coordination is done by the greatest number of people within the rules of supply and demand.

III.2.2.2. Criticism of Socialism

It is hard to come up with genuinely socialist countries in recent decades. For instance, China allowed private property by a constitutional amendment in 1999 and her economy was 40% privately owned in 2002, which has been on the rise since then (Morrison, 2002). It can be argued that all socialist economies are transition economies since the 1980s. Russia and East European countries are a few examples of this transition which probably occurred because of the “[o]verproduction, inefficiencies and inflexibility” (Morrison, 2002: 107) in socialism.

Among the famous critics of socialism are Von Mises (1951), Hayek (1948, 2000), Milton Friedman ([1991] 2006). Hayek (1948) for instance argues that it is impossible for a central authority to predict and plan for every need of every person in the society. It is only possible to process this much information through many dispersed and complex decision-makers of the free market.

The information processing problem was more visible with the developing socialist economies because (Griffiths and Wall, 1999: 60):

The complexity of the coordination problem grew explosively, as consumers demanded more choice and better quality. With innovation discouraged and the central planners being encouraged to set unrealistic targets for political reasons, productivity growth slowed and official statistics for production became ever more cosmetic. Absenteeism at work and false reporting of output became

commonplace. Shortages of consumer goods emerged and, with people unable to buy goods with their wages, households' deposits with the national savings bank piled up. This state of affairs was summed up in the Soviet joke, 'the factories pretend to pay us and we pretend to work'.

Another weakness of socialism is the lack of incentives in the economy that stems from the attempt to equalise the society. For the Soviet Model, for instance, "central planning provided little incentive for either managers or workers to work harder or to innovate" (Griffiths and Wall, 1999: 60). The claim of equality not only imposed indifference on the society but also stayed within the economic context only and did not diffuse into the other functions of the government. Lindblom (1977) for instance argues that although communist countries are committed to *economic* equality they never aspired to *political* equality.

More generally though, the problem with the socialist thinkers and socialist way of thinking is that they relied on the laws of science and their intellectual capacity too much, even solely. Although this may seem a bit controversial, the flawless truth in this assertion can be felt by consulting Newton and his scientific 'laws of gravity'. However sound his theories may seem²⁷⁷, Newton has been proven to be wrong by Einstein. Einstein has proven that time and space are indeed relative; thus scientific achievements are dynamic by nature. And it is really catastrophic to build big constructions on top of earthquakes with no precautions at all. The precautions in capitalism for instance were common sense accompanying scientism and in Islam the revelations, whereas socialism claimed a full predictability and full positivism of the whole history of mankind through historical, dialectic materialism. However, this way of thinking is not completely alien to capitalism especially and this and similar other reasons may suggest one linear order of the two systems approaching each other from extreme ends of 'labour and capital' or 'social and individual' etc.

Interestingly, Fulcher (2004), in his book 'Capitalism' writes about 'Swedish Capitalism' under the title 'Managed Capitalism' and Newman (2005), in his book 'Socialism' writes about 'Swedish Social Democracy'.

Figure III.14 tries to show this aspect of the two major economic systems, where capitalism and socialism are in one linear order of degrees of freedom of the markets.

²⁷⁷ Although named as 'laws' at the time

Figure III.14: Different but Overlapping Economic and Financial Systems



However, it is very hard to put Islamic economics and finance in this linear order, although we could put it in the middle for the sake of mean values, keeping in mind that mean values alone do not give the correct picture of the data. Let us explain why.

III.2.3. Islamic Economy and Finance in Theory

Modern economic thinking usually envisions a binary world with many dichotomies such as labour/capital, social/selfish, planned/unplanned, centralized/dispersed, command/coordination. These dichotomies are pervasive in socialism and capitalism probably because of the dialectic nature of these systems. Both socialism and the market system operates under the same ontological bases and this is why it is feasible for these completely different systems to meet under the same discussions such as ‘plan or no plan in the economy’ but they hold different poles because they have different epistemological bases. This way of thinking restricts description and development of economic systems as the discussions between the poles of white and black restricts thinking down to the spectrum of grey only and disregards the existence of other colours in the plethora of colours.

Beginning to discuss Islamic economics from the very beginning of the information theory, that is philosophical discussions of ontology and epistemology, is a burden because Islamic economics and finance does not position itself between these poles, as it has a completely different ontological basis which dictates “its distinct values, norms, rules and institutions” (Asutay, 2010). It is a burden because discussions of Islamic economics in any scholarly effort of modern economics forces academics to try to eliminate all the ontological misunderstandings in relatively very short pieces. These scholarly texts are designed to present discussions that assume no such distant information and knowledge from distant ontologies. In addition, mainstream economic studies do not require such efforts because they “are all products of the modern era” (Newman, 2005: 4) too. English political philosopher John Locke’s ideas (1632 – 1704) are one of the agreed upon commonalities of socialism and capitalism. Locke held in his *Second Treatise of Civil Government* (1960) that (Ebenstein *et al.*, 1994: 2):

Every man has a property in his own person; this nobody has any right to but himself. The labor of his body and the work of his hands we may say are

properly his. Whatsoever, then, he removes out of the state that nature hath provided and left it in, he hath mixed his labor with, and joined to it something that is his own and thereby makes it his property.

We call these ideas of Locke the foundational basis of socialism and capitalism, because they have been used in favour of both socialism and capitalism in different times. As argued by Ebenstein *et al.* (1994:3) “... each person had the right to what he or she produced, individuals’ productive efforts belong to themselves rather than to the king, a noble, the Church, or any other person or entity. Locke’s ideas thus were used to justify reducing the size and scope of government.”

In other times though, the same idea is used for favouring increased government and discouraging “private *accumulation* of property. Because each person had an equal right to what he or she produced, it was not fair nor was it just for some to possess a great deal of his or her share of the collective production, and thus Locke’s theory was used to advocate for ownership of enterprises by workers either directly or through the state.” (Ebenstein *et al.*, 1994: 3)

Western economic systems also share “the common goal of improving material welfare of human beings, and also agreed on importance of material conditions (and relative unimportance of the spirits, ideas *etc.*) as determinants of history” (Asutay, 2010).

First of all, Islamic moral economy and finance does not share this commonality, because it “is defined within the parameters of its own ethical system, which in fact, incidentally, demonstrates its originality and relativity“ (Asutay, 2010: 4).

Islamic moral economy has the “[c]ardinal epistemology of oneness of God (Divine Unity)” (Chaudhury, 1999: 15). “From this episteme is then derived the episteme of *unification of knowledge*” (Chaudhury, 1999: 15, emphasis added). Chaudhury (1999) describes other economic systems as “interactive, integrative and evolutionary”. Thus, both of the conventional systems should be considered through their inductive, dialectic and eclectic nature in contrast to the unified, deductive, additive, affirmative²⁷⁸ nature of the Islamic moral economy. This totally different ontology and epistemology brings about its own terminology and conceptualization.

²⁷⁸ In Islam, dialectics and criticizing argumentation is often replaced by the lack of affirmation only and this is considered to be more ethical (or *akhlaki*).

Because Qur'an and Sunnah provide the source of knowledge in Islam, all the knowledge is built on the ideal, revealed knowledge. Thus, everything is top-down and everything is a part of the greater 'order'. This order lays down all the systems within the order including economic systems. Choudhury and Malik (1992: 15) define *order* as "a totality of several systems integrated together through the bond of ethical relationships", while '*system*' refers to "functional components that together make certain sectors of the ethico-economic order work" in Islam (Choudhury and Malik, 1992: 15).

In order to internalize the constraining consequences of discussing an ontological argument in another ontological environment we may ask the question of the existence of God in Hinduism. If the discussion takes place in a Muslim, Christian, Jewish environment and if the answer is 'yes' then the first learner would get a completely different picture of God in Hinduism. Moreover, if the answer is 'no' the first learner would get an even worse understanding. Considering that both of the alternative answers to the same yes/no question are wrong people in different ontologies have to conclude that their questions are either completely unacceptable in other ontologies or must be corrected before the discussion carries on.

Chronologically, the Islamic economy began with the everyday practices of Prophet Muhammad immediately after the revelations of Qur'an at the very beginning of the 7th century A.D. However, Muslims believe that Islam is only the last part of "The Islam" which was practiced by Jesus, Moses, Abraham, Adam and many others. In this sense, Muslims believe that the first economic system that was ever practiced in the world was Islamic economy and it began with the first human beings, Adam and Eve, because Islam sees a "continuity and similarity in the value system of all revealed religions" (Chapra, 2001: 26). This notion is well established even in the legal discussions of Islam.

Keeping this distant history and foundation of Islamic economy and finance in mind, modern Islamic economics came into existence in the 1960s and 1970s (Asutay, 2007: 169) by the studies of founding fathers such as Chapra (1992, 2000), Siddiqi (1978), Naqvi (1981, 1994), Khan (1984), Arif (1985), Zarka (2003), Choudhury (1995, 2000).

Figure III.15 shows the relative position of the Islamic economy and finance among other systems. In the scale we presented in Figure III.14, Islamic economy and finance would be closer to mixed economies because Islamic financial and economic order dictates both private property and states' involvement in the financial market. Nevertheless, this does not mean that the Islamic economy is very similar to the mixed economic system. Conversely, as Figure III.16 shows, the Islamic economic and financial system is a distinct and standalone system with many components from various extreme ends of the dichotomous spectrum presented in Figure III.14. Nevertheless, Figure III.15 gives a general picture for the majority of the systems' positions in the dichotomy of liberal and conservative extremes.

In a similar vein, Morrison (2002: 85) argues that both capitalism and socialism “range from total state ownership and control at one *extreme* to free-market capitalism at the other *extreme* (emphasis added)”. Islam is said by many (*e.g.* Naqvi, 1994: 73²⁷⁹) to be a moderate system in between these poles, but this does not mean that Islamic economy and finance is not equal to ‘state capitalism’ or ‘market socialism’ merely because it has a completely different ontological basis.

²⁷⁹He calls it “Islam’s middle-of-the-road stand” (Naqvi, 1994: 73).

Figure III.15: Relative Positions of Economic System



As can be seen in Figure III.15, the Islamic system of moral economy is considered to be political in the sense that Islam is in the politics of the society *de jure* (e.g. Turkey); agnostic in the sense that Islam is neither in the politics of the society *de jure* nor *de facto* yet a Muslim community somewhat exists and practices Islamically motivated transactions (e.g. Turkic Republics under USSR and Muslim communities under People's Republic of China).

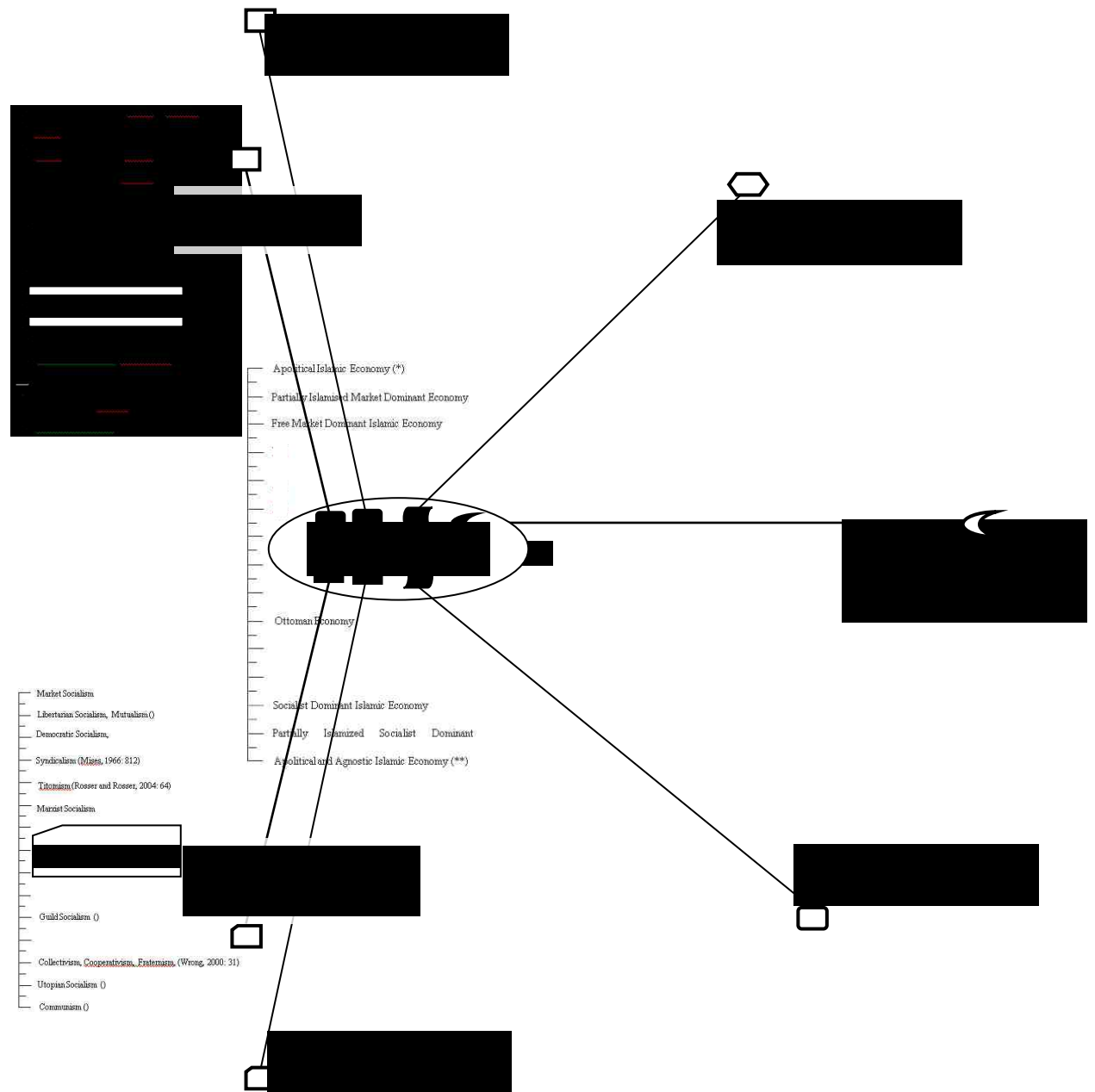
As seen in Figure III.15, variations in Islamic economics and finance are considerably less than in Socialist and Capitalist systems. One of the reasons is that Islam is based on revealed knowledge, whereas capitalism and socialism are based on dialectically²⁸⁰ discussed and re-established knowledge, every one of which eventually brought about new kinds of them.

On the other hand, this relatively narrow form of variations of Islamic economics and finance are not placed closer to the end point of the linear measurement, because some characteristics of it, such as *zakah*, *haram*, interest or ban on *riba*, purification, prevent it being in the upper positions, that is closer to capitalism, and its recognition of private property, free formation of price, market mechanisms, does not allow it to expand downwards, that is closer to the extreme forms of socialism.

It should be noted that Islamic economics is relatively less known in the literature. To make its comparison more explicit, we may utilize the depiction in Figure III.16. An explicit introduction is required to overcome the difficulties of comparing two ideology-based, bottom-up systems with a belief-based, top-down system. In Figure III.16, the connections and relations between the Islamic economic system, socialism and market economy are shown. Figure III.16 depicts that the Islamic economy can be placed in between many variations of free market economy and socialist economies; however, this assignment is not tantamount to saying that Islamic economy is a variation of state capitalism or market socialism or a hybrid mixture of them. Likewise, it does not mean either that Islamic economics has no components from these economic systems, but when it has, they should be evaluated as components of a different ontology about which quick conclusions are usually wrong.

²⁸⁰ Some scholars like Francis Bacon, the father of the scientific method, "attacked" some "artificiality of some of the elements of the dialectical tradition" (Magill and Roth, 1990: 222).

Figure III.16: Place and Form of Islamic Economics in Relation to Capitalism and Socialism



Nevertheless, there have been some who equate Islamic moral economy and finance with other economic systems. It is even possible to see Marxist (*e.g.* Boisard, 1987: 110²⁸¹) and laissez-faire capitalist interpretations of Islamic economics in the

²⁸¹ He claims that private property is “strictly limited” in Islam.

literature²⁸². These interpretations are not completely wrong. They have a relevance to Islamic economy, because Islam has many socialist-like and capitalist-like components. Moreover, it has some components that are even more liberal than laissez-faire capitalism and stricter than socialism. For instance, hadiths or the sayings of the Prophet, like “he/she who sleeps with a full stomach while his neighbour is hungry is not from us”, orders to share in the smallest society. According to this hadith, even when not rich, but simply relatively better off, one must take full responsibility for his/her neighbourhood. The punishment in this case, from a strictly social point of view, is a severe one (even from the point of view of socialism) and the last part of the hadith can even be interpreted as excommunication (in Christianity) or *cherem* (Hebrew for ‘excommunication’), because both *Macmillan Encyclopaedia* and the *Dictionary of Jewish Lore and Legend* define it as “exclusion from the society”. Maybe even many radical socialists would not render such punishments for such unsocial behaviour. Thus, Islam has an unparalleled social justice orientation, which can be taken as over-socialist as shown in the Figure III.16.

Other components are rather self-explanatory, but we may give one last example for the original components of Islamic economy. No-interest-economy and finance is one of the most prominent of them; it may be followed by the taxing system of receiving from the rich and spending on the poor and needy.

This approach, thus, requires theorizing a situational (not pragmatic) approach in the aforementioned comparison criteria of economic and financial systems while using those criteria for comparison under Islamic economy.

III.2.3.1. Principles of Islamic economy and finance

Islam “requires a balanced satisfaction of both the material and the spiritual needs of the human personality” (Chapra, 2001: 25) and decisions are made within this framework. Socio-economic justice is the primary objective of Islamic economy²⁸³ (Chapra, 2001: 25). This is particularly identified with Islamic methodology based on *maqasid al-Shari’ah* or the objectives of Shari’ah, which are defined as ‘human well-being’ in the sense that whatever action is undertaken by individuals has to aim at human well-being.

²⁸² E.g. Murat Çizakça’s ‘Islamic Capitalism’.

²⁸³ 57: 25

Chapra (2001: 25) explains the fundamental paradigm of Islamic economics as follows:

This objective takes its roots in the belief that human beings are the vicegerents of the One God, Who is the Creator of the Universe and everything in it. They are brothers unto each other and all resources at their disposal are a *trust* from Him to be used in a *just* manner for the well-being of *alit* (repeat all). They are accountable to Him in the Hereafter and will be rewarded or punished for how they acquire and use these resources

According to Islamic teachings, Allah has created sufficient resources for His creatures²⁸⁴. Scarcity occurs but not because of scarce resources; it “may be either due to lack of proper utilization of natural endowments or an imbalanced distribution”. Islamic economics “starts from the premise that the resources of earth are ‘adequate’ to achieve *falah* (salvation) through *ihsan* (beneficence)” and that scarcity “is a man-made situation and Islamic economics studies it in order to rectify it” (Asutay, 2010).

According to Islam, Muslims are under the test (Qur’an, 6: 165; 8: 28; 64: 15) of the material world, of worldly pleasures, food, money, gold, land etc. and other kinds of belongings. The fact that they privately own things does not mean that they are completely free in consuming the utility of those belongings from the rest of the community. This is in fact a departing principle of Islamic economics compared to other economic systems. In Islam, it is impossible to ban private property for the state, because then, the state destroys a mechanism of test, which is purposefully designed by the God so that people would see themselves and show the universe whether they were coal or diamond. If the state interferes between the individual and the God the test is stained. For instance, if distribution is planned by the government in order to secure a decent living for the poor, then this interference spoils the emergence of heroes who give even when they do not have or give all of what they have when they are the richest in the country.

For instance, a historical story of a garden is told in Qur’an (17:33) to teach Muslims how some fail the test. This tale is important to show that sharing while having is mandatory in Islam. Sharing by order or plan is impossible.²⁸⁵ In the tale the failed people, in a group, go to their garden to harness their crop very early in the morning

²⁸⁴ 41:10

²⁸⁵ Excluding *zakah* which is not wealth redistribution **by government** but because of *nass*, religious law. Therefore, *zakah* is not counted under the title of tax by many scholar.

in order not to meet some poor people who may want some of the crop for their needs.

III.2.3.1.1. Decision making structures

Islamic moral economy assumes that economic agents are formed as *homo-Islamicus* who make economic decisions with bounded rationality and bounded free-will (*juz' al iradah*) to reach *falah* (salvation) within the Islamic framework based on Qur'an and *Sunnah* in an ethical way. The objective function in Islamic moral economy is determined by *falah* (salvation); in other words, the decision making process aims to maximise *falah* as the outcome.

Comparing two of the conventional ideologies with religious sets of principles may require more effort to bring about better situations of comparison. However, in general, "individualism in the role of vicegerent of God on earth with an objective to achieve *falah* in this world and in the hereafter and accountability for performance" (Asutay, 2010) can be regarded as the main principles of the individuals deciding on alternative choices in Islam.

Important economic decisions are made either by governments, in planned economies, or by individuals in unplanned economies. In Islam, in addition to both of these decision-makers, the rules ordered by Qur'an and *Sunnah*, namely the ontological source, exist. For instance, people may have a certain amount of accumulated wealth in a given year. If he/she wants, he/she can give all or part of it as alms before the end of the year²⁸⁶. This is his/her personal choice and exemplifies the first kind of decision-making on property. As the second kind government may take part of the earning of the same person as tax and the amount of the tax depends on the circumstances. Nevertheless, if for instance the same individual pays 2.5 % or more tax on all his/her accumulated wealth in one year he/she cannot say that he/she will not pay zakah (the same amount 2.5%) because that portion of the earning is already the poor's money although earned by the rich (Qur'an: 51: 19; 70: 24-25). This is the additional economic decision making process in Islam.

Thus, Islamic government is not proactive and direct in its involvement with the market, it is only one of the decision-makers. Government makes sure that the

²⁸⁶ After considering the expenses of himself/herself, his/her family and parents and inheritance.

decisions are orderly made, interpreted and applied. It is passive until the static boundaries of law are breached and at the boundaries of law it is only indirect. For instance the Islamic state may interfere between seller and buyer if for instance, *gahn* (excess of upper and lower limits of reasonable selling/buying price) occurs, but would not build houses (like Narkomfin Communal Houses) to implement certain and probably more moral ways of life (Burhi, 1999). However, “government as a power above, with the responsibility of fulfilling public needs, can force individuals to participate in public affairs and works when needed” (Kallek (2004: 6).

According to Naqvi (1994: 73), “in the Islamic perspective, the freedom of an individual to make a choice between alternative options is both an absolute value and an instrumental value”, because both the free will axiom and the – imperative and voluntary – responsibility axiom holds in Islam.

The centrality of the ‘independent choice’ in Islam is emphasized by very famous figures such as Abu Hanifa. He, as the builder of one of the major schools in Islam, states that “[h]uman’s deeds are only the products of their own will” (Abu Hanifa, 1900: 81) and there are many Qur’anic verses supporting this view. Then, we may argue that the behaviours of the financial agents (individuals only in Islam) are not intervened in nor planned in Islamic finance until they reach the boundaries of revealed law but they are encouraged, praised, for certain channels and discouraged and criticized for others. Indeed, this is what ‘*hisbah*’ in an Islamic market is all about.

The frequency of the decision-making is more frequent in Islam, because Muslims are deterred from accumulating gold and silver in a safe and not spending it, using it, by some verses in Qur’an (*e.g.* 9: 34) and richness is praised (24: 32).

III.2.3.1.2. Incentives and motivation mechanisms

Islamic economics is a moral economic system and the incentives toward moral targets are obvious but interestingly, material targets are tied to moral incentives in Islam as well. For instance an individual may be rich and only by doing business honestly may be considered as a martyr (Tirmizi, Buyu, 4) in Islam.

In principle Muslims believe that they were asked in the Heavens if they wanted to

have a test of their faith in God (Qur'an, 33: 72) and they accepted that offer (Qur'an, 33: 72) and are now in this world to prove to Him their faith and keep their promises. This is the historical, past dimension of the main source of incentive in Islam and the second incentive is the second promise from God that if the promises are kept by the people he rewards them by the Paradise and by being happy with their faith to Him.

Following these principles, all the law in Islam motivates individuals to act and act in a legal way. For instance, the only allowed way of earning money is by means of labour and/or various means of effort in Islam (Qur'an, 53: 39). Prophet Muhammad says charity is *halal* neither for the rich nor for the able-bodied (al-Tirmidhi). Even the prophets had their occupations and worked in their communities to earn a living. For instance, Dawud was a blacksmith (Qur'an: 34: 10-11), Joseph was finance minister (Joseph: 55), Zachariah was a carpenter (Muslim, Sahih IV: 1847), Muhammad was a merchant.

Islam sees an inherited, present motive in human beings for material ownership and recognizes the greedy nature of some human beings. A hadith about human nature is as follows: "Even if they had a valley full of gold people would want to have another one full of gold"²⁸⁷. Thus, in Islam, [w]orking hard for the material well-being of one's own self, family and society is as spiritual as the offering of prayers, provided that the material effort is guided by moral values and does not take the individual away from the fulfilment of his social and spiritual obligations". Thus, this paradigm does not mandate self-denial but attempts to pursue "one's self-interest within the constraint of social interest by passing all claims on scarce resources through the filter of moral values" (Chapra, 2001: 26).

"The primary goal of life for humans as described by Islam is to achieve happiness or *falah* in this world and life hereafter (ultimate success)" (Asutay, 2010). *Falah* is an important motivational factor in Islamic economics because it promises an infinite life full of pleasures and the avoidance of hell along with the ultimate incentive, pleasing *Allah*, the creator, the owner of all. Al-Ghazali mentions four means of ultimate success in Islam: (i) goods of the soul; (ii) goods of the body, (iii) external goods, and (iv) divine grace (Asutay, 2010). Only the first two are relevant to this physical world.

²⁸⁷ Bukhari, Muslim, Tirmizi, Ibn Mace, Darimi.

“While an individual's self-interest may be served in this world by being selfish in the use of resources, his interest in the Hereafter cannot be served except by fulfilling his social obligations” and moral obligations by means of accountability before the Supreme Being (Chapra, 2001: 28). Thus, social ties, neighbourhood, brotherhood are important in Islam, however “Islamic economics ... emphasizes both individual self-maximization and maximization of societal well being.” (Asutay, 2007: 168).

Chapra (2001: 28) answers the incentive question as follows:

How does Islam induce individuals to pursue their self-interest within the bounds of social interest in situations where there is a conflict between self-interest and social interest?

Islam tries to accomplish this task by giving self-interest a longer term perspective - stretching it beyond the span of this world to the Hereafter, as Islamic moral economy is based on extended utility function by taking the hereafter in to the process of utility maximisation.

In addition to the materialistic motivation, in Islam there is another “vertical dimension” of motivation under the notion of *tawhid* (unity) (Asutay, 2007: 170) which provides another dimensions for ethical equality with eternal consequences and thus even more important than material motivation.

While mainstream economics assumes the prevalence of self-interested behavior on the part of all individuals, Islam does not assume the prevalence of ideal behavior. It adopts the more realistic position that, while some people may normally act in a purely ideal or self-interested manner, the behavior of most people may tend to be anywhere between the two extremes. However, since ideal behavior is considered to be more conducive to goal realization, Islam tries to bring individual behavior as close to the ideal as possible. This it does not do by coercion and regimentation. It rather tries to create an enabling environment through social engineering based on moral values, effective motivating system, and socio-economic reform. It also emphasizes the building of enabling institutions, and the playing of an effective goal oriented role by the government. (Chapra, 2001: 27)

In this regard, we should again put Islam in the middle between capitalism and socialism, because in socialism, finance is managed, coordinated by the high officials in the state and there is less to get for the professionals running the financial system other than corruption's gains (Yong, 2008). In Islam, on the other hand, there are many mechanisms to earn both the moral and materialistic targets to be motivated towards, unlike socialism which has mechanisms of social incentives only and market system which again has only material incentives.

III.2.3.1.3. Property rights

As an essential part of the strong justice nature of Islamic, the “[i]ndividual’s right to own private property is respected in Islam” (Naqvi, 1994: 74), but the concept is totally different than socialism and capitalism. According to Ayub (2007: 33), for instance, “all resources in the world belong to its Creator, One God; human beings are holding these resources in trust. Behaving as vicegerent of the Creator, they are free to earn and spend the wealth according to His orders given to mankind through His Messengers” (Qur’an, 24: 33; 57: 7).

Thus, in Islam, people are free to obtain material goods and services but within the moral filter and boundaries of set rules. For instance, Naqvi (1994: 74) states that “Islam gives the individual a right to own property in proportion to his own and his offspring’s needs and their capacity to use it productively”. Another restriction is that the right to private property “terminates on his death, after which the right of disposition is regulated by the Islamic law of inheritance” (Naqvi, 1994: 74). Islam, hence, offers a temporal ownership on the property.

From a financial point of view, for instance, people are not totally free to use their savings and earnings but limitedly free, as they are expected to invest in an interest free manner with the rest of the ethical and *Shari’ah* implications; thus, they cannot invest in certain types of contracts such as certain future contracts and swaps. Nevertheless limitations are to be mentioned only for showing the differences between the market economy and Islam, those limitations do not mean that one cannot be rich or very rich. Othman, one of the four famous Rightly Guided *Khalifas*, was very rich. As a recent example we can give Iran’s Hashemi Rafsanjani. In 2000, Forbes used his portrait as a cover under the title of “Iran’s millionaire mullahs”.

As for the theory of Islamic property rights, we may cite below restrictions stemming from the following hadith: “there is no legal validity to any action that brings excessive injury to oneself or others” (Kerr, 1966: 97; Abd-Allah, 1978: 227). Based on this *hadith* and rulings of earlier *khulafa’*, the restrictions below are mentioned by jurists such as Malik ibn Anas and Abu Yusuf regarding abuse of rights (Llewellyn, 1980: 34):

(i) If a person has staked a claim to unowned land for the purpose of reclamation, he loses his claim to whatever land he does not cultivate within a reasonable time, so that another may cultivate it, and arable lands not cultivated by their owners may according to some jurists be taken from them if their cultivation is needed by society. It is beneficial utilization and not merely acquisition that establishes the right to ownership;

(ii) The right to cultivate virgin lands may not be exercised by either individuals or the state where the result would be injurious;

(iii) A landowner may not without reason prevent on his land a development which is needed by his neighbour, if that development brings no injury to himself;

(iv) Urban design must insure privacy for women with sufficient air and sunlight. This affects the regulation of building heights, the design and placement of doors and windows, and the design of garden and rooftop walls so that the interiors of buildings and courtyard cannot be seen from outside;

(v) No farm beside a stream may monopolize its water, and if the water is likely to be insufficient for all farmers, a new farm may not irrigate until the needs of all previously established farms have been satisfied;

(vi) According to Ibn Qudamah and other jurists, it is forbidden to adversely affect a neighbor's well by lowering the water table or by polluting the aquifer;

(vii) A person is forbidden to mistreat his animals by providing inadequate maintenance (food, water, shelter and care), or to kill them except for legal purposes and by legal methods. According to Ibn Qudamah and other jurists, the state is obliged to intervene on behalf of abused animals. This principle would affect the design of animals' enclosures to safeguard their right to humane treatment.

Furthermore, there are certain means of possessing goods in Islam such as by "work, inheritance, purchasing/obtaining property for sustenance, properties granted as gifts and the State granting possession of something to the citizens" (Ayub, 2007: 33) and some markets are totally banned due to harming human well-being as stipulated by

maqasid al-Shari'ah, such as all products and services that are related to alcohol, drugs, pornography, fighting, pigs and some other animals.

Nevertheless, undoubtedly, Islam gives such a great value to private property that it orders to cut off one hand of the stealer under certain conditions. In a strictly materialist sense, this is far beyond the capitalist value of private property. Even from a moral perspective, material properties are greatly valued in Islam. For instance, if a Muslim dies while defending his/her property (*e.g.* his/her money), he becomes a '*shaheed*' (martyr) and earns paradise directly. This suggests an unprecedentedly devoted value to private property. These can be taken as over-capitalist components of Islamic economy.

In short, "to facilitate the acquisition of property and wealth, Islam has indicated legal means of ownership and its transfer through a variety of contracts. General rules for these contracts have also been defined in detail with the possibility of resolving any contemporary issues through Ijtihad" and "[r]ules pertaining to investment of wealth/property have also been laid down" (Ayub, 2007: 33).

III.2.3.1.4. Coordination methods

Two main dialectic arguments, namely full competition versus full regulation and planning, are not considered to be sufficient (Chapra, 2000: 69) in Islam, because Islam's economic philosophy is not dialectic (Naqvi, 1994: 75; Sadr, 1982). In Islam, many issues are analysed from multiple viewpoints, for instance coordination is not seen as a discussion of whether or not state or market should dominantly coordinate the economic development, but the importance of the moral values in trade and the reform of the players in their economic activities are also frequently emphasized in such discussions.

Nevertheless, the *nass*²⁸⁸ clearly orders the formation of an independent price in the market that is free from fraud and monopoly/monopsony. According to Ibn Taymiyyah, the price is God's price and there should be no interference to its free formation (Islahi, 1988), because "a much higher price would constitute exploitation of the people's need, a much lower one would harm other sellers" (Islahi, 1988: 96). Ibn Taymiyyah also thinks that "price-fixing is feasible only if there is a known group

²⁸⁸Unbreakable laws in Islamic law.

engaged in trade and business, as a result of whose manipulation, the price increases because it cannot be fixed on those who are not suppliers” (Islahi, 1988: 97). Focusing on the supply-side is observable in the *sunnah* as well. For instance, the prophet “prohibited people from going out of town to buy merchandise which was on its way to the market, telling them to buy merchandise which was on its way to the marketplace²⁸⁹” (Al-Qaradawi, 1994: 260).

Similarly, Al-Qaradawi (1994: 255) argues that “Allah is the One Who fixes prices, Who withholds, Who gives lavishly, and Who provides”. There are even stricter examples from the Prophet’s times. For instance, the Prophet rejected ordering lower prices even at the time of very high pricing in the market despite the wishes of many from the society²⁹⁰. In this sense, we may argue that there are times when the Islamic market is even more reluctant to fix prices than market economies²⁹¹.

Nevertheless, many scholars agree that “[t]he state can introduce necessary laws to ensure social justice and to put an end to economic exploitation and oppression²⁹²” (Ayub, 2007: 38). “The Islamic economic system gives an important overseeing role to the State and regulators” (Ayub, 2007: 39). Chapra (2000: 73) cites the following authors who emphasize “the regulation of economic activity and of markets ... to ensure justice and fair play”: al-Mavardi (d. 450/1058), Abu Ya’la, (d. 458/1065), al-Ghazali (d. 505/1111), IbnHazm (d. 456/1064), Abd al-Rahman al-Shayzari (d. 589/1193), IbnTaymiyyah (d. 728/1328), Ibn al-Ukhuwwah (d. 729/1329), al-Nuwayri (d. 732/1332), IbnKhaldun (d. 808/1406), and a;-Maqrizi (d. 846/1442).

Chapra (2000: 73) also argues that

“[t]he state need not have any qualms about intervening when the threshold of justice and fairness are crossed and there is no justification for waiting until the market forces correct the inequalities themselves. Such intervention should not, however, be arbitrary for this, in itself, could lead to inequalities. It should rather be on the basis of a proper analysis by experts and, if the price is

²⁸⁹“If anyone does buy some of his merchandise, in this manner, the seller has the option of cancelling the transaction after arriving at the marketplace” (Al-Qaradawi, 1994: 260).

²⁹⁰reported by Ahmad, Abu Daoud, al-Tirmidhi, IbnMajah, al-Dari and Abu Y’ala, “when the prices became high in the Prophet’s time and people asked him to fix prices for them, he replied, Allah is the one Who fixes prices, Who withholds, Who gives lavishly, and Who provides, and I hope that when I meet Him none of you will have a claim against me for any injustice with regard to blood or property” (Al-Qaradawi, 1994: 255)

²⁹¹ For instance, USA fixed prices in First World War.

²⁹²Qur’an; 22: 41

regulated for some valid reason, it should not be out of tune with the price of similar goods and services in normal circumstances.

“Islam has accepted the law of demand and supply as a principle but has subjected it to some limitations to avoid any moral and social ills and problems” because “[t]he ultimate objective of an Islamic economy is to establish social justice” (Ayub, 2007: 39). Al-Qaradawi (1994: 258) provides a good example of such an objective. He refers to Anas from Muslim. Anas says: “Sale by a resident on behalf of a desert-dweller was prohibited to us, even though he might be a blood brother”. This shows us that in the Islamic marketplace, agents are ensured access to all levels, “the market, its prices, and sales, should be left free to respond to internal economic forces” (Al-Qaradawi, 1994: 259). Similarly, as related by Muslim, the Prophet stated that “If anyone withholds goods until the price rises, he is a sinner” (Al-Qaradawi, 1994: 256).

As Spencer (2000) argues, the market financial system is a higher level of abstraction than the Islamic financial system. In simple terms, the Islamic financial market can be described by the basic Arrow-Debreu (1954) general equilibrium model, which only describes “commodities in very abstract terms, without worrying about time or uncertainty. The market opens once, equilibrium prices are found, exchanges are made and that is the end of the story” (Spencer, 2000: 3). Arrow and Debreu (1954) require the fulfilment of the following assumptions within a *complete market*²⁹³ framework:

- (i) there is full information,
- (ii) agents are too small to affect the prices,
- (iii) there are no externalities.²⁹⁴

However it is not easy to explain the market financial system with the same general equilibrium model of Arrow-Debreu (1954) because of the “high level of abstraction” which means that the “individuals arrange consumption and production across future *time* periods and *states* of nature by exchanging claims on future output” (Spencer, 2000: 3, emphasis added).

Nevertheless, many (such as: Spencer, 2000; Arrow, 1964) argue that an extended

²⁹³In Arrow-Debreu securities, a complete market requires, “T time periods × G goods sold and bought × S states of nature” many contracts.

²⁹⁴i.e. there are no “unpriced side effects like pollution” (Spencer, 2000: 2).

version of this model is still Pareto-optimal and can be used to explain the financial market in a capitalist financial system by the use of insurance and options for adverse contingencies. For instance Arrow (1964) shows that the same complete market is possible by “T time period × S states of nature” many contracts, but this expanded model is not sufficient to correctly depict the current dynamic or better to say ‘continuous’ financial markets because “it describes a static equilibrium in which markets are open once and then close permanently” (Spencer, 2000).

III.2.3.2. Criticism of Islamic economics and finance

Asutay (2007: 168) warns that “Islamic economic theory has developed coherent foundational axioms *without* the operational axioms through which IBF [Islamic Banking and Finance] can function.” With such a “pragmatic” attitude, IBF “adheres to the precepts of neo-classical paradigm of managing wealth that conflicts with the foundational axioms upon which an Islamo-ethical financial system was intended to be built”. Because of these “contradictions”, “in the Muslim world, capitalism in its most primitive and inconsiderate form is thriving, despite the fact that Islamic economics provides foundational axioms that proposes an ethical system of economics and finance based on ontological and epistemological sources of Islam.” (Asutay, 2007: 168, emphasis added).

Islamic economics and finance also ignores what Adam Müller (1779 - 1829) calls ‘moral capital’ (*geistiges Kapital*) which encompasses accumulated knowledge and information about the ideas and experiences of the earlier generations of scholars and practitioners (Kallek, 2004: 6).

Some suggest and argue that the theory of Islamic economy and finance is not encouraging. For instance, “[t]he recent case study by Chong and Liu (2009: 125, emphasis added) of Islamic Banking in Malaysia found that “only a *negligible portion* of Islamic bank financing is strictly PLS based and that Islamic deposits” where PLS appears larger, “are *not interest-free*, but closely pegged to conventional deposits”. In other places, “IBF is reduced to the mere removal of *riba* (interest)” (Asutay, 2010: 169) which raises concerns about a “growing wedge between ... conventional theory and current practices” (Hasan, 2005: 11).

It is also debated whether or not Islam has an original economic system because some of the scholars argue that “[t]he Qur’an does recognize the existence of an oppressed class (*mustadafin*) and an oppressor class (*mustakbarin*)” (Naqvi, 1994: 74), while others hesitate to accept that they think every tool in financial capitalism is applicable to Islamic finance.

Another criticism is raised by Kuran (1983, 1985) on the ground that Islamic economics is not possible due to the behavioural norms; as individuals are considered to be responding to the economic incentives rather than religious incentives. In addition, an ardent critic of Islamic finance is El-Gamal (2007), who mainly argues that there is nothing called Islamic finance as it conducts the same functions as with conventional finance with the fictitious ‘interest-free’ mechanism. He is also of the view that Islamic finance is only the product of *Shari’ah* scholars to create arbitrage for themselves being a ‘special interest group’.

III.2.4. Systemic Vulnerabilities as a Precondition for Financial Crime Motivation

In this part of our study, we synthesize the aforementioned analyses about various economic and financial systems and their underlying vulnerabilities in Table III.1 through Table III.4.

Table III.1: Decision Making Structures

		Market	Socialis t	Fully Islamic	Partially Islamic	Total
Systemic Vulnerabiliti es	Dispersed Decision Making Structures	5	1	3	4 when capitalism is dominant and 2 when socialism is dominant	13

Note: 5 = Very dispersed, 4 = Dispersed, 3 = Moderate, 2 = Not Dispersed, 1 = Centralised

Table III.2: Incentives and Motivation Mechanisms

		Market	Socialist	Fully Islamic	Partially Islamic	Total
Systemic Vulnerabilities	Incentives for Pecuniary Benefits and Mobilization	4	1	4	4,5 when mixed with capitalism 3 when mixed with socialism	13,5

Note: 5 = Very High incentives, 4 = High incentives, 3 = Moderate incentives, 2 = Some Incentive, 1 = No Incentive

Table III.3: Property Rights

		Market	Socialist	Fully Islamic	Partially Islamic	Total
Systemic Vulnerabilities	Allowance of Property Rights	5	1	3	4 when mixed with capitalism 3 when mixed with socialism	13

Note: 5 = No restriction on property rights, 4 = Very few restrictions on property rights, 3 = Moderate restrictions on property rights, 2 = Many restrictions on property rights, 1 = No property rights

Table III.4: Coordination Methods

		Market	Socialist	Fully Islamic	Partially Islamic	Total
Systemic Vulnerabilities	Runtime, Independent Coordination	5	1	4	4,5 when mixed with capitalism, 3 when mixed with socialism	14,5

Note: 5 = Everything is decided in runtime, independently, 4 = Majority of the things are decided in runtime, 3 = Actions are both planned and left to runtime, 2 = Many things are planned in advance, 1 = Everything is planned, nothing is decided runtime, independently.

Capitalism, socialism and Islamic economic and financial systems can be named ‘pragmatic’, ‘ideological’ and ‘belief’ systems respectively. Capitalism is pragmatic, because it does not have many uncompromisable principles; for instance, capitalism values market mechanisms excessively, because Adam Smith suggested the ‘invisible hand’ principle that guides economic activity and therefore implies that there is a very

limited role for government. Some capitalist economists (*e.g.* Alfred Marshall) even suggested that economics was like biology, as they both dealt with collective systems based on matter.

For obvious reasons socialism is an ideological system, because Marxist ideology is at the heart of it, and the Islamic economy is indeed a belief system, because it includes dogmas which are natural to observe in religious systems. Despite the positive norms being available in Islamic economics and finance, it is socially constructed around the principles derived from revelations and the religious verdicts.

We should be aware that finance is a derivative of economics as a field of study and everyday operations and all its processes indeed are follow-up processes of the underlying economic routine activities and processes. In this ‘comparative economic systems’ part of our study we analysed the main underlying economic processes of financial systems.

In Chapter 7, a comparison between the financial systems’ crime propensities are discussed by using the ‘opportunity spaces’ concept that is developed in Chapter 6 and another comparison of criminological perspectives of these systems exists in Chapter 3 as well.

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