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Get mad, stay mad : exploring stakeholder mobilization in the instance of corporate fraud and Ponzi schemes

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**GET MAD, STAY MAD: EXPLORING STAKEHOLDER MOBILIZATION IN
THE INSTANCE OF CORPORATE FRAUD AND PONZI SCHEMES**

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Dedication

This thesis is the result of an off the cuff remark she made on our very first date; therefore, I dedicate this to my darling wife: Krista. Without your love, kindness and support, I never would have started this journey, let alone finish it. I love you and thank-you for believing in me when no one else did.

Abstract

Using a multi-case study, three Ponzi schemes were investigated: Road2Gold, Bernie Madoff's empire, and the Earl Jones affair. This grounded study used an inductive bottom-up methodology to observe and describe stakeholder mobilization in reaction to corporate fraud. This research on stakeholder behaviour in Ponzi schemes articulates new theory for describing stakeholder behaviour and possible determinants for successful mobilization to action. The data presented here point to a useful distinction in the stakeholders in a corporate fraud: reluctant and engaged stakeholders. Reluctant stakeholders seek only interest-based ends, whereas engaged stakeholders have additional identity and ideological goals shared by a mobilized group.

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LIST OF ABBREVIATIONS

EJVG	Earl Jones Victim Group
NGO	Non-Governmental Organization
RBC	Royal Bank of Canada
RCMP	Royal Canadian Mounted Police
RDT	Resource Dependency Theory
SEC	Securities Exchange Commission

Introduction

Corporate fraud is, unfortunately, not rare in the business world. According to a 2009 multinational survey by Price Waterhouse Cooper, “white collar”, or economic crime, is growing faster in Canada than in other developed nations, with 56% of Canadian companies reporting fraudulent activities in 2009 (Davies, 2009). Types of schemes include banks offering financial products with higher than normal rates of return, but which are actually non-existent products; Ponzi (or pyramid schemes) where initial investors are paid returns by later investors; ‘pump and dump’ scams wherein a stock is heavily promoted to artificially inflate the value then sold off en mass by those holding the stock once the public succumbs to the bogus rumours. No matter the financial vehicle, the perpetrators of the fraud have zero intent of running a legitimate organization, but merely using the company as a tool to access victims’ capital. Frequently, only a small number of key executives know of the fraudulent intent of the firm; thus, employees are often as victimized as those caught in the Ponzi scheme itself.

Current stakeholder literature has focused on developing models for improving stakeholder relations with the company. Generally speaking, there are assumptions that companies, and those companies’ executives, are operating in good faith rather than with malicious intent. When examining cases of Ponzi schemes or other types of deliberate fraud, such assumptions simply cannot be made. The current characteristics that are assumed for stakeholder group models do not match the characteristics of stakeholder groups victimized by organizations with malicious intent. The majority of research on corporate fraud focuses primarily on human resource countermeasures and accounting policies to mitigate fraud (Holt & DeZoort, 2009; Satava, Caldwell, & Richards, 2006),

rather than examining problems stakeholders face when mobilizing to recover lost capital or changing firm behaviour. This gap in the research presents an opportunity to understand stakeholder behaviour when confronted with corporate fraud.

It is within this context that this thesis explores stakeholder mobilization towards activism. Three case studies are discussed and analyzed using a grounded theory approach. Publically available articles on the Bernard ‘Bernie’ Madoff and Earl Jones scandals are examined, as well as this researcher’s notes on a recent Canadian case that appears to be a fraudulent. During the axial coding phase of this study, numerous categories emerged which pointed towards the selective coding of stakeholder mobilization, namely: demographics of victims, relationship proximity of victims to fraudster, the pre-crisis attitude of victims towards fraudster, the post-crisis attitude of victims towards fraudster, the legal involvement pre-crisis, alacrity of legal enforcement post-crisis, emergent stakeholder leadership, overall stakeholder group cohesion, and finally, tactical goals of the group.

According to the data emerging from this study, group characteristics of 1) stakeholders identifying themselves as part of a group, 2) an emergent leadership, and 3) having non-monetary goals (in addition to the commonly shared monetary ones), seem to be critical for the success of any attempt to mobilize a group of stakeholders into action. Stakeholders’ perception of themselves (however reluctantly) as part of a single group relies on a few factors: close geographical proximity to one another, small population of stakeholders, the existence of pre-fraud relationships, and lack of monetary incentive. The factors of having a good lawyer (or team of lawyers) to advise the group on navigating the legal system, a smaller population of victims, fewer groups of

stakeholders and having alternative goals beyond simple restitution seem to translate into a stronger leadership for the group. Movements of stakeholders that self-identity as being part of a cohesive group, strong leadership and non-monetary goals might affect public policy and curb the growing issue of corporate fraud. A new classification of stakeholders is offered to the body of stakeholder literature: reluctant and engaged stakeholders. Reluctant stakeholders have an unwanted situation thrust upon them and if they mobilize, it is upon interest-based motivators: they want to recover what was lost. Whereas, the engaged cohort of stakeholders seem to pursue the satisfaction of interest, identity and ideological needs and as a result form into social movements that attract others to their cause. These findings are valuable because they differentiate between reluctant and engaged stakeholders and suggest strategies that might mobilize stakeholders caught in a fraud beyond simple interest-based motivation, towards action based upon interest, identity and ideological motivators. Non-governmental organizations (NGO) could use this research as a guide to understanding the increased probability of stakeholder mobilization and emergence of cohesive and engaged stakeholder groups.

Literature Review

Business exists within a complex series of relationships between the organization, its employees, owners, clients, suppliers and community in which it operates. All of these actors connected to an organization are known collectively as stakeholders. The term stakeholder finds its genesis in the 18th century English case law, wherein a party would hold a stake in a financial transaction or hold in trust the proceeds of a wager (Johnson-Cramer, 2008). Although stakeholders were not explicitly addressed in managerial literature for most of the 20th century, the idea of managing relationships with those affected by the conduct of business was certainly an undercurrent (Frederick, 1960; Smith, 1937). It was not until Freeman's (1984) pivotal work, *Strategic Management: A Stakeholder Approach*, where the paradigm of stakeholders began to be more fully articulated and explored.

The literature and evolution of stakeholder theory has followed a number of streams of research and complex models have been developed to describe and predict behaviour. This review will follow the genesis of stakeholder theory into the modern streams of stakeholder theory.

History

R. E. Freeman's work is still debated by those who study stakeholder theory (Donaldson & Preston, 1995; Dunfee, 2006; Frooman, 1999; Jamali, 2008; Jawahar & Gary, 2001; Phillips, Freeman, & Wicks, 2003). At the most elementary level, Freeman suggested that "a stakeholder in an organization is (by definition) any group or individual

who can affect or is affected by the achievement of an organization's objectives" (1984, p. 46). Freeman offered a visual model wherein the organization was the hub of a wheel with spokes extending out to various stakeholders. Although simplified and at an extremely macro level of analysis, the conceptualization of stakeholder interconnectedness was revolutionary, yet Freeman (1994) argued that for subsequent researchers, staying with such a simplified model would be too abstract to fully capture the complexity of relationships. The definition of stakeholders offered at the time by Freeman was too broad; theoretically, it could have encompassed an entire population that could be directly or indirectly be affected by an organization's operations, so various methods of identification of stakeholder groups and their saliency evolved (Goodstein & Wicks, 2007; Hendry, 2005; Kaler, 2002; Magness, 2008; Mitchell, Agle, & Wood, 1997; Peteraf & Shanley, 1997; Rowley, 1997).

Freeman's work has been widely cited as a method to identify key stakeholders and manage the politics inherent in those complex firm-stakeholder relationships (Freeman, 1994; Mitchell et al., 1997). The strategy Freeman offers in this classic work could be used to glean insight on emerging issues which might threaten the firm; furthermore, Freeman was cognizant of the need for a system of corporate governance that harmonized the rational, process and transactional components within a stakeholder framework which would lead to a more ethical organization. Freeman (1994) argued against the firm identifying stakeholders as separate and differentiated means to strategic ends. Freeman, in later works, argued for a more egalitarian approach where management adopts an approach where all stakeholders are interconnected with the firm. Freeman (1994) suggested, in *The Politics of Stakeholder Theory: Some Future*

Directions that the stakeholders are clearly identified and he limited the group of importance to: “employees, financiers, customers, employees and communities” (p. 417) which further reinforces the idea of stakeholders being interconnected with the firm. Freeman’s theory posits that organizations that administer their relationships with stakeholders the most beneficially will endure and thrive, whereas organizations that fail to nurture their relationships are doomed (Freeman, 1984; Frooman, 1999; Rowley & Moldoveanu, 2003). Furthermore, Freeman suggests that organizations manage their relationships and monitor how stakeholder interests change and evolve over time and react accordingly to maintain those relationships. Freeman’s work suggests compartmentalizing stakeholder needs and supporting business functions to fulfil those stakeholder needs.

Debate amongst scholars as to whether a corporation’s duty is to, shareholders or stakeholders, has waged for almost 100 years (Bakan, 2004; Coelho, McClure, & Spry, 2003; Friedman, 1970; Smith, 1937). The stockholder model is heavily supported by property rights of shareholders, legal imperatives for the corporation, legislated governance mandates and public policy (Bakan, 2004; Friedman, 1970); however, in this model there is no allowance for the management of those affected (read: stakeholders) by the externalities created by the operations of the corporate entity (Naylor, Vernon, & Wertz, 1983). Alternatively, in a stakeholder model, corporations are seen as citizens of their community and must act to increase stakeholder wealth not just shareholder wealth (Andriof & Marsden, 1998; Carroll, 1998; Matten, Crane, & Chapple, 2003; Waddock, 2000). For organizations to survive and increase their profitability, they must manage their reputation with the public, attempt to be good neighbours and become upstanding

citizens within their communities (Prado-Lorenzo, Gallego-Alvarez, & Garcia-Sanchez, 2009; Sethi, 1975; Ullmann, 1985).

More recently, scholars are beginning to move away from framing the argument as shareholders versus stakeholders, rather they argue about when and how corporations should respond to demands and increase shareholder value (Campbell, 2007; Hillman & Keim, 2001; Yang & Rivers, 2009). For example, Yang and Rivers (2009) suggest that companies will adapt to the societal norms of their host communities in order to gain legitimacy amongst stakeholder groups. Hillman and Keim (2001) are more specific, finding that organizations create competitive advantage through their largesse, thus increasing profitability and building reputation by allocating resources towards primary stakeholders (i.e. clients, suppliers, human resources and the surrounding community).

Stakeholder Salience & Engagement

One would assume that identification of stakeholders would be extraordinarily simple; however, Freeman's (1984) original definition is exceedingly broad and left management and academics with the difficult task of figuring out who has primacy and authority to have their needs addressed (Carroll, 1991; Husted & Allen, 2006; Mitchell et al., 1997; Ullmann, 1985). Rather than heed Freeman's (1994) advice about viewing stakeholder groups as being interconnected with the firm and seen as a whole, the Mitchell et al. (1997) model was composed of a model which divided stakeholders into groups and assessed by three converging dimensions: legitimacy, power and urgency. The Mitchell et al. (1997) model is dynamic in a number of ways and is intended to be strategically employed by management to better cultivate stakeholder relations. One manager might determine the salience of a stakeholder group differently than another

manager and thus give the stakeholder group greater attention than a peer; however, the situation may be so fluid that the salience of a stakeholder group could change in the view of management from moment to moment as shown in the comparative case study by Parent and Deephouse (2007). By categorizing stakeholders within these 3 dimensions, management can determine which stakeholders are most deserving of attention within a dynamic model. The Mitchell et al. approach was groundbreaking because it was the first conceptual model that posited and attempted to link the attributes which organizations management needed to assess when determining stakeholders salience. Mitchell et al.'s (1997) model is entirely firm-centric and allows for one-way analysis (i.e. from the firm to the stakeholder) and ignores the inverse, i.e. stakeholder identification of saliency in the firm's hierarchy to affect change. Challenging Mitchell et al.'s work, Frooman (1999) suggested that stakeholder groups with power would override any other factors for consideration. Parent and Deephouse (2007) further challenged aspects of the Mitchell et al. (1997) model and suggest that the stakeholder attribute types are not balanced in primacy, and that power and legitimacy tend to dominate consideration for management with less emphasis on urgency.

Stakeholder theory has focused on the identification and engagement strategies for the most part (Rowley, 1997); however, there are divergent areas of research exploring activism and stakeholder influence strategies on the firm (Rehbein, Waddock, & Graves, 2004; Rowley & Moldoveanu, 2003). Firm-centric research, wherein the models focus on organizations exercising unilateral control over interconnected and dyadic stakeholder relationships, is pervasive (Burchell & Cook, 2006; Phillips et al., 2003; Svendsen & Laberge, 2005; Swift, 2001). Addressing stakeholder demands and

expectations leads to better relationships with those most affected by an organization's operations, thus increasing an organization's reputation and brand caché (Carroll, 1999; Jamali, 2008; Wood & Jones, 1995). The majority of work within stakeholder engagement focuses upon how managers are, and should, be treating their stakeholders (Donaldson & Preston, 1995; Hine & Preuss, 2009; Swift, 2001). Although the majority of stakeholder literature is written from the firm's vantage point, there are researchers examining influencing strategies from the stakeholder side of the equation (Frooman, 1999; Frooman & Murrell, 2005; Rowley, 1997; Rowley & Moldoveanu, 2003; Zietsma & Winn, 2008).

Frooman's Model

"Stakeholder Influence Strategies", by Jeff Frooman (1999) argues from a Resource Dependency Theory (RDT) perspective as the basis for his strategy for stakeholder management. RDT describes the building and maintaining of relationships when one party has a scarce resource that another party wants. RDT has a number of assumptions built into it; namely, internal and external partnerships emerge from interactions and those interactions dictate the tone of future behaviours; the environment provides very scarce (and thus valuable) resources; and lastly, organizations will attempt to completely control the supply of resource for their product or service, which then forces customers and competitors to rely upon the firm's good intentions (Ulrich & Barney, 1984). Frooman's (1999) case study on StarKist Tuna illustrates the power of stakeholders to influence corporate governance and strategic positioning. The Frooman model suggested direct and indirect strategies that stakeholders can exercise to achieve their agenda and mitigate agency dilemmas. In establishing the case, Frooman (1999)

employs Pfeffer's (1972) idea of resource assignment and discretion in the furtherance of the firm's business to build upon this case. Frooman's (1999) model suggested four overarching strategies in achieving corporate change by stakeholders, namely: direct withholding, indirect withholding, direct usage and indirect usage. Moreover, Frooman (1999) argued that the level of interdependence between the firm and stakeholders plays a critical role in stakeholder strategy to elicit change, if there is little interdependence between firm and stakeholder groups, then there are fewer options available to stakeholders to force change in firm behaviour; whereas, strong interdependence between the firm and stakeholders translates to greater power stakeholder groups can utilize. Frooman's model added these factors to the predominant focus on the organization's influence on stakeholders.

A notable limitation to Frooman's model is an assumption of the company operating in good faith. When considering corporate fraud, and given the lack of power stakeholders have in this situation, the strategies Frooman suggests would fail to accomplish anything as the unspoken assumption in RDT and the Frooman model is the continuance of operations and further transactions with customers (Rosen, 2009; Williams, 2008). Stakeholders, who have been preyed upon when the firm operates in bad faith, have little recourse in influencing the firm directly due to the fact that the scarce resources no longer are in demand by the perpetrator of the fraud. The organization that commits a fraud cannot be influenced by traditional stakeholders, nor can withholding strategies work as there is no intent to continue being a going concern. Typically, third parties (law enforcement or regulators) are required to assist in stakeholder redress when corporate fraud is committed.

Frooman's article argues for a model where, "stakeholders manage a firm to enable them to achieve their interests, possibly at the expense of the firm's" (1999, p. 192). This idea was innovative as it was the first to suggest theory from the stakeholder side of the equation rather than management's. The proposed stakeholder-centric view claimed to harmonize with ethics literature to create a more symbiotic understanding about the relationship between the firm and its stakeholders according to Frooman (1999; Frooman & Murrell, 2005). Frooman's model highlighted the power that comes from the nature of the relationship which contrasted with other models that focused upon individual firm power in stakeholder theory (Freeman, 1984; Mitchell et al., 1997). The RDT model that is argued, suggests a withholding strategy as a viable method for creating change in a firm (Frooman, 1999); however, if a transaction is started where clients enter in good faith but the firm's intent is to act in bad faith, the initial strategy fails as there is nothing for stakeholders to withhold. Furthermore, Frooman (1999) suggests that stakeholders will protect their interests, yet when considering instances of fraud and stakeholders are deceived they are unable to protect their interests on their own (Brearton, 2009; Fraud costs, 2011; Rosen, 2009; Sliter, 2006).

The model does note though that there are assumptions built into it: "we assume that a firm seeks profits and, therefore, chooses efficient actions, then a stakeholder that requests a change in firm behaviour is implicitly asking the firm to choose a less efficient means to its end" (Frooman, 1999, p. 197) and that firms are "first and foremost profit maximizers" (Frooman, 1999, p. 198). There are issues inherent with this assumption: first, the assumption of pursuing the most efficient actions is in direct opposition to the bounded rationality theory wherein satisfactory results are sought rather than the optimal

course of action (Simon, 1991). Second, the assumption that a firm operates in the most efficient way, says nothing about whether it operates in a legal manner; the assumption leaves the stakeholders to exercise their power to bring the organization to align with a community's ethical and moral norms. For example, a company might be legitimate in its conduct but violate clean air regulations by exceeding pollution limits as the most efficient form of operations; it would then be the stakeholders' responsibility to mobilize and demand a 'less efficient means' of production ceasing the practice. These assumptions effectively limit the applicability of the theory to cases where corporations operate within legal limits and within full regulatory compliance. They do not apply to situations of corporate fraud or Ponzi schemes.

Rowley & Moldoveanu's Model

Stakeholder activism has increasingly been employed as a tactic to change corporate behaviours (Guay, Doh, & Sinclair, 2004; Rowley & Moldoveanu, 2003). Tim Rowley and Mihnea Moldoveanu (2003) identified their model as, "...representing all stakeholders but reserve stakeholder group for a collective of individuals conscious of their membership in the group" (p. 205). Rowley and Moldoveanu (2003) grouped people into theoretical activist groups, discussing individuals in the aggregate as they were effective in firm influencing strategies in a synergistic group than lone individuals (p. 205). Rowley and Moldoveanu (2003) further note that their model is focused on, "... environmental activist groups, organized community groups, employee unions, and so forth..." (p. 205). These groups might motivate stakeholders into action against a targeted firm (or firms); however, Rowley and Moldoveanu (2003) note that customers and, cryptically, "individuals... of a common association with the focal organization" (p. 205)

are not covered by the theory. The implication of customers and associates of the firm not being covered by the model suggests that the model is geared primarily towards secondary stakeholder groups (i.e. groups that do not directly benefit from the transaction but feel they have a vested interest in the transaction).

Rowley and Moldoveanu (2003) develop the theoretical model from two major frameworks: interest-based and identity-based (Dutton & Dukerich, 1991; Frooman, 1999; Peteraf & Shanley, 1997). The Rowley and Moldoveanu model suggests that interests are not a primary motivator for stakeholder mobilization as it does not easily translate into discernable action; moreover, the model indicates that stakeholders will mobilize based upon a desire to proclaim an identity as well as safeguard their interests. The authors advocate opportunities for future research, namely examination of leadership structure and how, “some groups may possess members who are concerned only with expressing this identity with like-minded others...” (Rowley & Moldoveanu, 2003, p. 217). In the case of corporate fraud, there exists another avenue of research: examining the social impact of being caught in a fraud and how that stigma might act as a motivator for group leadership and group mobilization.

On closer inspection, Rowley and Moldoveanu’s work has major deficiencies when applied to examining stakeholder groups that have been involved in a Ponzi scheme: the authors note that, “leaders of a stakeholder group... will be less concerned about personal costs relative to interest-based benefits¹ they gain” (Rowley & Moldoveanu, 2003, p. 216). This would be contradicted if stakeholder leaders are

¹ The value and expected payoffs relative to a stakeholder’s interests (Rowley & Moldoveanu, 2003)

motivated because of their personal costs, i.e. lost investment capital which would clearly interest-based benefits.

Rowley and Moldoveanu's (2003) model contains a number of propositions for consideration. Firstly, Rowley and Moldoveanu (2003) propose that stakeholder groups which have mobilized in the past against a targeted firm are more likely to come together again in the future, all things being equal; however, in the instance of fraud, it seems very unlikely that the same investors would be united against the targeted firm again. Secondly, the Rowley and Moldoveanu (2003) proposition involves stakeholders taking pride in identifying themselves commonly via their association within the group; however, when corporate malfeasance is involved, there is no pride being part of the that collective and therefore there is difficulty identifying the members of the group. Thirdly, Rowley and Moldoveanu (2003) propose that stakeholders mobilize based upon interest overlap. This proposition may hold true as stakeholders that have been affected have a vested interest in mobilization as they have lost capital, more so if they moved beyond their risk tolerance to further their investment. As we can see then, the Rowley and Moldoveanu model is predicated upon the assumed ongoing and enduring relationship between firm and stakeholders.

There are holes within the current literature of stakeholder theory. Freeman's (1994) proposal argues for analysis of the interconnectedness of stakeholders to firms to manage the politics of relationships; however, this proposal is making the assumption of continued, mutually beneficial transactions between stakeholders and firm. The majority of contemporary stakeholder literature is firm-centric and does not fully describe the stakeholder side of the equation. The Mitchell et al. (1997) model seeks to segment and

assess the saliency of stakeholders but this model is only unilaterally valid from the firm assessing stakeholders and fails when reversed to stakeholders assessing the firm. The stakeholder models typically flow from a management-centric perspective and do not offer much in describing stakeholder-centric models. Frooman (1999; 2005) offers stakeholder-centric strategies to affect change in an organization; however, the model is based upon RDT and assumes continuance of firm-stakeholder relationships.

Stakeholder models also fail to capture the effect of individuals and their motivations when considering fraud or illegal activities perpetrated by the firm. Rowley and Moldoveanu (2003) suggest individual identification with a group, and prior mobilizations against targeted firms as the primary motivators for activism; however, in the case of corporate fraud, there is no pride in group identity nor would there have been prior opportunity to mobilize against a firm that is a repeat offender. The missing factors present an opportunity to more fully describe the complex relationships between firm and stakeholder actor mobilizations generally given cases of corporate fraud and specifically considering Ponzi scheme.

Social Movement Theory

A social movement can most easily be defined as people working together to alter their society into a more preferred state (McCarthy & Zald, 1977). Social movement theory has typically been the domain of sociological and political science researchers seeking to describe collective action; however, management scholars have turned to social movement theory to better explain activism (Eesley & Lenox, 2006; Elsbach & Sutton, 1992; Hambrick & Chen, 2008). The origins of modern social movement theory can be found in the early part of the nineteenth century (Smelser, 1963), wherein academics

sought to explain the psychology of social movements. Currently, there are a number of major theoretical streams of research within the social movement paradigm; four of these research streams will be discussed here: charismatic authority, new social movements, political opportunity, and lastly, resource mobilization. There is an opportunity to bridge the social movement theory from sociology to management academia to better explain and understand stakeholder mobilization when confronted with corporate fraud.

Charismatic authority. The German sociologist, Max Weber, initially suggested the role of a charismatic leader as being a necessity for any social movement in his essay “The Sociology of Charismatic Authority” (1958). Weber suggested that someone whom others tend to regard as having inherent ‘supernatural’ powers, is required to motivate a social movement (1958, p. 245). A group moving towards action, Weber (1958) suggested, is necessitated on the presence of a charismatic leader in times of stress; moreover, Weber suggested that leaders, within movements which emerge in times of strife, are those who have charismatic tendencies.

Weber’s exact definition of charisma is disputed amongst sociologists who offer differing, and sometimes conflicting, interpretations (Alex-Assensoh, 1998; Jones & Kriflik, 2006; López-Pérez, 2009). Ann Ruth Willner (1984) suggests a few of the traits that compose charismatic leadership qualities: originality, eloquence, and a high level of energy. Charismatic leadership of social movements, Weber argued, was critical in “extraordinary times” (1958, p. 245). Stakeholders suddenly finding themselves caught in a Ponzi scheme would qualify as being in extraordinary times and the emergence of leadership to organize the group might very well be required.

New social movements. New social movement theory is based upon taking a cultural approach to understanding social movements. There are two central aspects to the new social movement theory: first, the growth in the number of movements is a product of western society moving away from a post-industrial economy; and second, that the new, more numerous social movements are dramatically different than social movements of the past (Buechler, 2000). European social theorists suggested that an increased sense of identity, coupled with action based on one's ideology in pursuit of a more equitable society, was the basis for movements forging a new social order in the mid-twentieth century (Buechler, 2000). An additional component to social movements beyond identity and ideological motivators was added by Bert Klandermans (2004): instrumentality. Klandermans suggested that people are drawn to social movements based on a desire to change their circumstances (instrumentality²), they may feel pride in being a part of the group (identity), or they may simply want to express their beliefs (ideology). This stream of research places particular emphasis on the idea of a socially constructed identity as a motivator towards group movement and there are clearly parallels with the work of Rowley and Moldoveanu (2003; den Hond & de Bakker, 2007).

When considering the case of a fraud being committed against a group of people, the victims may indeed have an interest in getting their lost funds back (thus satisfying the interest/instrumentality component); however, the identity and ideological

² For the purposes of this paper, instrumentality and interest-based motivators will be treated interchangeably. Instrumentality deals with the desire to change one's circumstances, whereas interest-based motivation is focused on protecting one's interests. So in the case of fraud, the instrumentality-based motivation is changing the situation back to the moment before what was lost occurred, and the interest-based motivation is protecting one's interests and also return the situation to the moment before what was lost occurred.

components of the new social movement theory are left unsatisfied. There is no pride in being a victim of a fraud and expressing group ideology may be limited to wondering how the rule of law will deal with the fraudster. Some stakeholders within the group may answer the siren's call to engage in fighting the good fight and pursue the role of champion for changing their situation (thus satisfying the identity and ideological components necessitated by the new social theorists); however, stakeholders evolving into champions for their cause would dovetail more closely with the charismatic authority research stream rather than the new social theory stream. Seemingly, the bulk of stakeholders bearing the impact of being caught in a tragedy (economic, environmental, etc.) do share a reluctant identity: victimhood. The new shared stakeholder identity may be that of demoralized and disempowered victimhood, which may offer comfort via mutual moral support amongst the stakeholder cohort, rather than the pride in fighting to right the wrongs perpetrated against the group.

Resource mobilization. For a social movement to be successful, according to the resource mobilization theory, a group must acquire resources and mobilize the group towards action in accomplishing the movement's ultimately goal (McCarthy & Zald, 2001). Resource mobilization theory has dominated social movement literature since its inception and is most closely in sync with RDT in business literature (Buechler, 2000; Frooman, 1999). Both RDT and resource mobilization assume that individuals behave rationally, logically then an individual would not be compelled to join a social movement when they could enjoy the benefit without directing effort in collective action. Resource mobilization theory suggests that individuals, in fact, behave rationally if the benefit of joining a social movement is greater than the cost of joining (Kendall, 2006; Olson,

1971). Under the resource mobilization theory, group organization is paramount; group infrastructure is a critical resource for the group to be successful in their pursuits (Kendall, 2006; McCarthy & Zald, 2001). The formation and enduring nature of groups is contingent upon accessibility to, and control of resources in resource mobilization theory (McCarthy & Zald, 2001) rather than in response to specific grievances.

When stakeholders are confronted with corporate fraud there is indeed a specific grievance: a definite loss of stakeholder resources. The loss of stakeholder resource (misappropriated investment capital, clean drinking water, unpolluted traditional hunting grounds, etc.) may be the catalyst for mobilization, regardless of the presence of requisite group resources necessitated in resource mobilization theory.

Political opportunity. Political opportunity theory is focused on understanding the external context that creates social movements; however, scholars are in disagreement about whether political opportunity theory is merely derivative of the resource mobilization theory (Buechler, 2000). The origins of political opportunity theory sought to explain the political conditions of the time that allowed social movements to come into being, rather than discussing the longevity of the movement's group cohesion (Eisinger, 1972). Later researchers modified the theory to gauge the responsiveness of politics to the emerging social movement (Meyer & Minkoff, 2004). A favourable political climate for a social movement requires a few things: first, strong allies (or enemies) amongst the political elites in power; second, access to political power by the group; and third, political alignment instability (Tarrow, 1994). Social movements, according to political opportunity theory, can both create or snatch political opportunities by utilizing existing

social networks, aligning with other movements, and/or crafting a collective identity to galvanize the social movement (Meyer & Minkoff, 2004; Tarrow, 1994).

Ponzi and White Collar Crime

White collar crime, or crimes committed by “a person of respectability and high social status in the course of his occupation” (Sutherland, 1983, p. 7) are increasingly a problem within Canada (Gray, 2007). In 2008 there were almost 91,000 reported cases of fraud (Statistics Canada, 2009); this number coupled with the police assertion that only five percent of frauds are actually reported (Fraud costs, 2011) means that Canada has a very real problem with almost two million instances of fraud occurring each year. Stringent laws and empowered regulatory bodies are typical of western societies governed by the rule of law; however, failure to enforce those laws allows for increased instances of corporate crime and opportunity for corporate malfeasance (Gray, 2007; Sliter, 2006).

There are several streams of research into fraud and Ponzi scheme from management scholars; however, the majority of these studies focus on accounting measures to mitigate embezzling by employees (Holt & DeZoort, 2009; Satava et al., 2006; Sayles, 2006). The major streams of research on fraud, from a management perspective, range from creating accounting systems (Pollock & Sumner, 2009; Satava et al., 2006) to human resource countermeasures. Research has tended towards accounting counter-measures and processes to mitigate risk of fraud, psychological aspects for victims and perpetrators of fraud (Shadel & Pak, 2007), and human resource management techniques in creating a fraud-free workplace (Coelho et al., 2003; Young & Thyl, 2009). Scholarly articles focus on identifying avenues for fraud prevention in

accountancy through stringent audits or the psychology of how and why people get caught in fraud, yet in the management literature, there is little research exploring fraud beyond the balance sheet. A few high profile cases of corporate fraud reflect badly upon all businesses and further the public sentiment that corporations are corrupt, thus contributing to an erosion of confidence in business. This represents a missed opportunity for management scholars; by studying corporate frauds and Ponzi scheme, scholars can offer better understanding of stakeholder mobilization and influence strategies in these situations and further broaden the stakeholder paradigm.

Canada holds the dubious distinction of being the only G20 nation without a centralized securities commission (Stein, 2010), which creates gaps between spheres of influence and muddies lines of jurisdiction for regional authorities and makes interprovincial enforcement almost impossible (Watson, 2009; Williams, 2008). The lines of jurisdiction become unclear when a scheme occurs across provincial lines and into foreign countries and questions of authority to enforce judgements become apparent. A fraudster that is based in Ontario (for example) could lure British Columbians in a scheme; however, when it comes to enforcement and investigation, Ontario regulators have no authority to investigate matters in British Columbia (and vice versa) leaving the only the Royal Canadian Mounted Police (RCMP) to act as investigators. It could be argued that these gaps in responsibility are what have placed Canada in the top 10% for reports of fraud per capita (United Nations, 2008).

Methodology

A multi-case study method was used to investigate the dynamic relationships between the company and stakeholders caught in a Ponzi scheme and how those relationships differ from traditional assumptions of corporate and agent integrity in interactions (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007). I proposed building theory using multiple cases due to the fact that there is virtually no research that has been explored that addresses stakeholder mobilization within the context of organizational fraud.

Developing theory from case studies is most appropriate in this thesis because the intent is in-depth investigation into the phenomena and generation of theory rather than testing models. I suggest this tactic as it is most suited to bring understanding to the actors' (in this case, stakeholders') subjective reality and explain the processes by which stakeholders construct their experiences (Eisenhardt, 1989b; Parent & Deephouse, 2007; Yin, 2003).

Because of the absence of stakeholder-centric literature and relatively little amount of research into fraud beyond accountancy and psychology, selecting three cases of Ponzi scheme offered the best avenue to generate new theory. A case study approach offers the greatest opportunity to allow new theory to evolve out of the events, in this study from multiple case studies, by the researcher (Eisenhardt, 1989b). The goal of this thesis is the creation of new theory by describing the Jones and Madoff cases, with my own personal insight from Road2Gold. These cases have created the necessary insight into strategies executed by stakeholder groups. Interviews and editorial analysis from

diverse perspectives are already available in the Madoff and Jones cases; given the abundant availability of material, personal interviews are not necessary.

A case study approach seems most prudent as it allows for the greatest understanding of phenomena by choosing particular cases, becoming immersed within the details, then comparing and contrasting the emergent themes across the cases. Case studies tend to address how phenomena happen. Utilizing multiple cases adds to the credibility of the thesis; this was achieved by analyzing similar outcomes from the individual cases. The cases all had similar phenomena amongst cases, ergo support for the development of theory was substantial (Eisenhardt, 1989b; Yin, 2003). The case study models suggested by both Maxwell (1996) and Eisenhardt (1989b; Eisenhardt & Graebner, 2007) were used. Each case was analyzed independent of the others. Findings were then compared within a matrix to bolster reliability with the end result being emergent theory and a series of research questions.

Strategy of Research and Basis for Theory

This thesis was designed primarily to explain stakeholder mobilization strategies and tactics used to influence a firm which acts in an illegal manner. I proposed using three different cases of Ponzi schemes (which occurred at different times and geographical locations) in an effort to understand factors and phenomena common amongst the cases.

By analyzing three different cases of corporate fraud, emergent themes and elements common to all three cases were examined to develop new theory on stakeholder mobilization (Dyer, Wilkins, & Eisenhardt, 1991; Eisenhardt, 1989b). Allowing the

experiences of those involved in the cases to act as data allowed theory to develop, which further enhances the stakeholder paradigm (Dyer et al., 1991; Eisenhardt, 1989b).

Simultaneously shifting between data immersion (i.e. data nuances, and sense-making characterizations from the literature) and development of theory (categorizing and sorting common elements) encouraged the creative process and greatly enhanced the objectives of this study (Corbin & Strauss, 1990; Isabella, 1990; Strauss & Corbin, 1994). Because a grounded theory approach to data analysis was used, keeping an open mind throughout the study (and being mindful of other potential interpretations for the data) was crucial.

Perspective of Researcher

The nature of this study required a grounded theory approach to data analysis, thus it is important to note the role that the researcher played. Because I was caught within a Ponzi scheme, my role as an investigator presented a rare opportunity to give insight to motivations, objectives, strategy development and underlying feelings of stakeholders. Data immersion, memoing, coding and inductive theory development relied on my creativity and certainly tempered my thesis findings. However, as Strauss and Corbin noted regarding researchers employing grounded theory: researchers do not merely report on their observations, they “accept responsibility for their interpretive roles” (1994, p. 274).

I approached this situation with as clear a mind as possible. I attempted to not have any theory in mind in order to mitigate researcher bias as much as possible. By keeping free from theory initially, the study itself directed the flow towards theoretical

development (Eisenhardt, 1989b). Realistically total elimination of researcher bias is utopian; however, approaching the data unfettered with preconceived ideas was paramount to the generation of ideas.

The current paradigm of stakeholder theory is primarily focused on regulatory oversight and company strategies for stakeholder relationship management. This thesis is wholly from the stakeholder perspective and addresses those same stakeholder needs.

Significance of Research

This thesis aims to offer new paths of stakeholder research and illuminate an unaddressed undercurrent of corporate fraud. The majority of current management research on corporate fraud is contained (primarily) to the accountancy discipline (Baliga, 1993; Satava et al., 2006; Sayles, 2006; Williams, 2008) thus there is a very significant gap presented to future researchers. The theory that emerged from the selected cases might be extended to other cases beyond simple fraud: any time there are instances of corporate malfeasance this theory might be able to describe or predict the effectiveness of stakeholder mobilization.

This research could be of particular importance to NGOs in their efforts to hold governments and misbehaving corporations to account for their actions by managing the factors that lead to stronger group cohesion and social movements. NGOs that have strong group identity, effective leadership and non-monetary goals may be more effective in changing public policy and holding misbehaving corporations to account.

Sampling and Collection of Data

To further understand the stakeholder experience, I used secondary source materials available on the World Wide Web and academic databases as this offered very divergent viewpoints regarding the Madoff and Jones cases. In the Road2Gold case, I used the company's own communiqués as a source, as well as my own diary, correspondence to the organization and other interested stakeholders.

The views of regulators, investors, whistleblowers and the perpetrators themselves were all represented in the available writings, making for a robust source of data for this study. I limited my initial pool of articles to results returned in ProQuest with the search parameters: Ponzi scheme, fraud, Madoff and 'Earl Jones'; currently, I had two Google web alerts set to deliver news results once a week for approximately 7 months. The first web alert was set up using the parameters: 'Ponzi scheme', 'fraud', and 'Bernie Madoff'; the second alert was set up with the parameters: 'Ponzi scheme', 'fraud', and 'Earl Jones'.

I then conducted selective sampling. Selective sampling is the process of identifying populations (in this case the pool of articles written on Madoff and Jones) before the data collection phase (Draucker, Martsof, Ross, & Rusk, 2007). As new case literature was gathered and compared with the existing pool of literature to gain a deeper understanding of common elementary phenomena as suggested by Strauss and Corbin (1994). I attempted to be as flexible as possible in the collection of data as the study evolved to further building theory from a multi-case study framework as suggested by both Eisenhardt (1989b) and Maxwell (1996). It should be noted that selective sampling differs from quantitative sampling in that the goal is not to capture and explain variances

in data, but to triangulate data by gathering diverse and independent accounts to gain better insight into otherwise little understood phenomena. As I became immersed in the data, major categories became readily apparent (Breckenridge & Jones, 2009; Corbin & Strauss, 1990; Glaser & Strauss, 1967). Once the categories emerged from the data, I continued selectively sampling in order to further advance defining characteristics and develop propositions for future research.

I gathered data from very diverse sources, this acted as a type of triangulation which helped to qualify the justification for furthering knowledge and development of new stakeholder theory (Eisenhardt, 1989b; Maxwell, 1996). To ensure construct validity and reliability, I ensured that the articles selected for this study fit within the context of Madoff's scheme, Jones' scheme and corporate fraud so as to not be confounding the study (Eisenhardt, 1989b; Maxwell, 1996).

Data Analysis and Approach to Theory Creation

As was originally suggested by Glaser and Strauss, a grounded theory approach to data analysis was employed throughout this study due to the relative lack of research on this subject. Analysis of data and emerging theory were continuously compared and contrasted throughout the collection and analysis phase as is typical for this type of research as the two are interrelated in the method (Corbin & Strauss, 1990; Roderick, 2009; Strauss & Corbin, 1998). In practical terms, this meant that I reviewed the articles, I then coded emerging concepts from the data while capturing ideas and questions that arose in memos until no new concepts or ideas arose. Once no new categories, concepts or ideas were arising from new articles or the data set, this was the point that I knew I achieved theoretical saturation described by scholars (Breckenridge & Jones, 2009;

Corbin & Strauss, 1990; Glaser & Strauss, 1967). At a macro level, the theory evolved and directed my attention to the scope of matters, whilst at a micro level; theoretically appropriate data being gathered formed the framework for data collection (Breckenridge & Jones, 2009; Suddaby, 2006).

Concepts which were similar were grouped together into categories. I clustered the concepts into categorical silos of similar meaning that better explained the phenomena observed within the dataset on the cases (Corbin & Strauss, 1990; Eisenhardt, 1989b; Glaser & Strauss, 1967). My goal in using a grounded theory approach to data analysis was two-fold: first, analysis while still collecting data expedited the theoretical saturation process; and second, I was able to be reactive in data collection methods in order to accommodate any newly emergent themes not already captured within the dataset (Breckenridge & Jones, 2009; Eisenhardt, 1989b). In the late stages of data analysis component of this thesis, I leveraged the gift of hindsight and arranged the dataset into chronological order to determine if any causal events presented themselves as suggested by Eisenhardt (1989b) and Maxwell (1996).

I used an inductive bottom-up approach to developing theory as was outlined earlier. I employed the use of coding (open, axial and selective) and memos (which will be described more fully in the next section). A theoretical framework emerged as a direct result of using a multi-case study with a grounded theory approach to data analysis, rather than approaching the data with a theoretical framework in mind to be tested. Because I deferred the development of a theoretical framework initially, the data from the different cases determined the resulting framework and initial biases were mitigated as much as possible. Eisenhardt (1989b) developed a process for theory development in the context

of a case study; Table 1. Case Study Theory Development Process Adapted from Eisenhardt (1989b) offers specific details of the theory development I used as this thesis unfolded.

Table 1. Case Study Theory Development Process Adapted from Eisenhardt (1989b)

Stage	Activity	Rationale
Project launch	<ul style="list-style-type: none"> ✓ Develop research questions ✓ No theory or hypothesis ✓ Decide upon cases to employ ✓ Theoretical sampling 	<ul style="list-style-type: none"> ✓ Focuses paper and researcher efforts ✓ Allows theoretical flexibility ✓ Allows researcher to mitigate outside variation by choosing specific cases ✓ Focuses on cases useful to theory generation
Data collection	<ul style="list-style-type: none"> ✓ Multiple data collection methods ✓ Overlapping of data collection and analysis ✓ Flexible data collection 	<ul style="list-style-type: none"> ✓ Strengthens grounding of theory by triangulation of evidence ✓ Expedites analyses and reveals potential adjustments to data collection ✓ Allows researcher to utilize emergent themes & unique case themes
Data analysis	<ul style="list-style-type: none"> ✓ Within-case analysis ✓ Cross-case pattern search ✓ Shaping hypothesis 	<ul style="list-style-type: none"> ✓ Familiarizes the researcher with data set and initial theory genesis ✓ Creates conditions where researcher must look for unifying themes ✓ Explore causation in relationships which leads to internal validity ✓ Replication across cases confirms and focuses theory.
Closure	<ul style="list-style-type: none"> ✓ Comparison to similar literature ✓ Reaching closure 	<ul style="list-style-type: none"> ✓ Builds internal validity and broadens generalizability ✓ Theoretical saturation when only small gains are being made on theory.

Coding and Memos

Traditional parameters of coding were followed in a grounded theory approach, namely: open, axial and selective (Glaser & Strauss, 1967; Strauss & Corbin, 1998).

Open coding refers to the breaking up of events into smaller, more elementary components then labelling the phenomena described; this phase formed the building blocks for the budding theory. Axial coding refers to the grouping of the elementary concepts into more abstract categories and subcategories. Lastly, the selective coding phase of this study incorporated the newly identified categories and how they relate to a core category; these relationships then formed the framework for the emergent theory (Corbin & Strauss, 1990; Glaser & Strauss, 1967; Strauss, 1987).

I analyzed each article, sentence by sentence, paragraph by paragraph throughout the open coding phase; it was in this phase that concepts arose in the article on a case that could be compared to the other cases, those concepts were then labelled and described throughout this phase of research. Once all the emerging concepts were labelled within the dataset, I then moved into the axial coding phase where I grouped the results of the open coding into silos of common meaning. I used the following silos of meaning: causal conditions (the factors that influenced the events), the context of condition (to understand generalized conditions), stakeholder mobilization stratagems (actions undertaken by stakeholders, the motivators for those actions and the immediate results of those actions), and the consequences (Corbin & Strauss, 1990).

Once the core category was identified, I then determined and described the relationships of the categories to the core category; this was my first foray into the selective coding process. I developed a sequential matrix illustrating the environment

and results of the relationships between the concepts and emerging categories which formed the basis for my proposed theory. I employed my own contemporaneous journal writings on the events as a source material as it contained intimate descriptions of events in a chronological order as events were unfolding in the Road2Gold case. Any bias arising from analyzing my own diary as a piece of secondary source material was tempered primarily because the diary was started in August 2009, on the advice of my lawyer, before I was even a student and the vast majority of the writings occurred when my preliminary thesis research was focused on a completely different topic.

Because of the nature of this study³, it would have been impossible to capture all emergent categories, qualities, hypotheses and developing questions that evolved from the analytic process. There had to be a system in place for tracking and confirming findings, so I followed protocol suggested by Strauss and Corbin (1998) to engage in memoing. Memos were used to track ideas which developed when comparing situations and concepts throughout the grounded theory approach to data analysis. Ideas that developed and comparisons between concepts were noted in the articles and captured in memos.

Reliability and Validity

Establishing the validity within this proposed thesis study, a number of strategies were undertaken. To address construct validity, clear operational processes were implemented for coding and memoing. Limiting the article search to certain keywords, namely; ‘Madoff’, ‘Earl Jones’, ‘Ponzi scheme’ and ‘fraud’ ensured the articles were on

³ I am, of course, referring here to the extreme number of victims of Ponzi schemes and other types of corporate fraud, as well as the voluminous amount written (and still being written) on the cases of Madoff and Jones.

point and limited to the focal area, namely cases pertaining to corporate fraud, Madoff and Jones. As Corbin noted, “the generalizability of a grounded theory is partly achieved through a process of abstraction that takes place over the entire course of the research. The more abstract the concepts... the wider the theory’s applicability” (1990, p. 15). In simpler terms, because the theory is grounded in the data, it is constrained to the situations it is based upon; however, parallel events or situations can lend themselves to more extensive testing of theories in subsequent studies. The theoretical model and research questions generated by the findings may be tested and explored at a later date. The theory offered by this study is broad enough to reproduce by others wishing to further this stream of research.

By the very nature of using a grounded theory approach to data analysis, it is very difficult to ensure reliability in the traditional sense. Reliability seeks to ensure consistent measurements in a study; however, grounded theory’s goal is creation of new theory so reliability is not necessarily applicable. As Yin notes, “every case study project should strive to develop a formal, retrievable database, so... other investigators can review the evidence directly and not be limited to the written reports...” (2003, pp. 98 - 99). I have created a database of records used and scanned accompanying coding and memos to ensure transparency, and thus increase the trustworthiness, in my method. As Stenbacka (2001) suggests, since reliability is focused primarily on measurements, it could then be argued that it has no place in qualitative research. Instead, quality, rigor and trustworthiness have been offered up as more robust ways of differentiating good qualitative research from bad (Davies & Dodd, 2002; Stenbacka, 2001). To ensure the rigorousness of my thesis, I shared articles and coding scheme with graduate student

peers where we compared findings to ensure the transparency of method and trustworthy and dependability of findings; furthermore, I shared articles, coding and scanned notes online that have already been completed by me those same graduate student peers, to validate findings and ensure reliability through triangulation and generation of an audit trail.

Coding Transitions

After the initial pool of articles was obtained, I read through the articles without initially coding or memoing to familiarize myself with the article content. Once the initial read-through was completed, I then immediately re-read the article; only this time I was highlighting passages that seemed important to me while noting ideas that emerged while reading the text. As my analysis progressed, I noted that certain categories naturally seemed to group together (i.e. demographic information and stakeholder leadership), while other categories were more elusive in how they were interconnected at a more macro level. Table 2 shows the breakdown of occurrences of the various themes and how they were coded during the open coding phase and how they were subsequently clustered into silos as I transitioned to the axial coding phase of this study.

For example, Anne Sutherland's (2009b) article, "'He's not a thief, he's Satan': alleged Earl Jones victims" had demographic information (i.e. median age of 65, 'affluent' Quebecers, etc.) which easily formed into a tight silo during the axial phase of analysis; however, the article also had categories which dealt with legal matters, the named committee and its spokesperson. As I moved from open to axial coding, the elements of stakeholder leadership were being mentioned increasingly alongside one another. For example, Table 2 shows stakeholder leadership having the open portion

elements mentioned 17, 16, 15, 12 times respectively out of 32 articles and interviews examined. I coded the open category elements together into the stakeholder leadership silo (i.e. spokesperson named, group named, more than one stakeholder group mentioned) as it became apparent that they were related and interconnected with one another to describe the group organization.

Since I was a stakeholder affected by a fraud; my own biases clearly affected my coding. I was, for instance, keenly aware in the Road2Gold case being stalled because of the lack of other leaders willing to assist in moving the group in a direction; alternately, in the Jones case, I came to admire the leadership committee for the accomplishments they have won in the wake of the Jones affair. Moreover, without a lawyer to assist in navigating the legal system in the Road2Gold case, the movement seemed to stall for long periods while I gathered the required legal knowledge to make an informed decision on the next course of action; whereas, in the Jones case, Neil Stein is mentioned repeatedly speaking for, and obviously counselling investors on the best next legal steps. My interests may have guided the development of categories; however, my bias should not diminish or detract from my findings given that the point of a grounded theory approach is to describe phenomena and offer potential new theory to the body of knowledge.

Table 2: Open and Axial Categories Theme Counts

Axial Coding Silo	Open Coding Categories	Earl Jones	Bernie Madoff
		Articles (n = 32)	Articles (n = 45)
Demographics of victims	Age	16	12
	Socio-economic status	11	15
	Number of victims	16	21
	Amount invested	18	23
Proximity of victim to fraudster	Geographic location of stakeholders	22	18
	Personal relationship with fraudster	13	16
	Nature of relationship with fraudster	18	26
Pre-crisis attitude of victims	Victim's attitude towards fraudster	15	19
	Feelings about past situation	12	16
Post-crisis attitude of victims	Victim's attitude towards fraudster	15	19
	Feelings about current situation	21	11
Legal involvement pre- crisis	Regulatory investigation	6	11
	Lawsuit against fraudster	5	3
Legal involvement post-crisis	Authorities reaction to fraud	11	25
	Regulatory reaction	7	12
	Political reaction	6	3
Stakeholder leadership	Spokesperson	17	9
	Lawyer mentioned	16	27
	Group named	15	6
	# of victim groups	12	26
Overall stakeholder cohesiveness	Cohesion of group	19	3
	Different agendas	12	20
Tactical goal	Goals of stakeholders	21	23
	Nonmonetary goals	17	9

Case Analysis

The three cases that were chosen offered an interesting juxtaposition of victim characteristics. This section will provide an overview of the three cases studied for this thesis. Each case will present the: background of the perpetrator, nature of the fraud, description of the victim demographic, the regulatory response, the victims' response upon learning of the fraud, and the current state of the stakeholder group.

Bernard 'Bernie' Madoff

Bernard 'Bernie' Madoff, before his downfall, was one of the most well respected wealth managers in the world (Bandler & Varchaver, 2009; Lieberman, Gogoi, Howard, McCoy, & Krantz, 2008). Madoff created Bernard L. Madoff Investment Securities LLC which started as a penny stock and competed with other traders at the New York Stock Exchange (Anonymous, 2009a; Nasaw, 2011); Madoff helped develop the stock trading software that would eventually become basis for the NASDAQ stock market (de la Merced, 2008). Rather than invest client money in the market to generate returns, Madoff would take the investment capital and deposit it into a JPMorgan Chase bank account (Stempel, 2010). When clients expected their returns, or requested their capital back, Madoff would withdraw from the JPMorgan Chase bank account, thus creating the illusion of propriety for investors (Stempel, 2010; Zweig, 2008).

Madoff's case involved a great many people ($n=1000s$) from the middle and upper socioeconomic classes (Anonymous, 2009b; Kane, 2008; Lewis, 2011; Zweig, 2008). Madoff's victims' losses (with the fabricated gains factored in) were nearly \$65 billion USD in the largest Ponzi scheme in American history (Farrell & Masters, 2009; Lucchetti & Lauricella, 2009). According to Madoff, his victims were motivated

primarily by greed to give him their money with little due diligence done investigating Madoff; the victims were blinded by the large, steady returns Madoff had delivered for over 20 years to other investors (Bandler & Varchaver, 2009; Kane, 2008; Singletary, 2011). When asked, the majority of victims interviewed said that in retrospect, they did not engage in enough due diligence and were blinded to the risks of investment by the high rates of return on investment (Bandler & Varchaver, 2009; Brockman, 2009; Lewis, 2011; Zweig, 2008). Major Wall Street companies suspected that Madoff's returns were illegitimate and chose not to do business with Madoff (Davis, 2010; Lucchetti & Lauricella, 2009; Zweig, 2008).

There were clear warning signs pointing towards the Ponzi scheme Madoff engaged in. In 1999, Madoff's wealth management competitors contracted an expert (Harry Markopolos) to investigate Madoff's unprecedented (and consistent) returns of 1-2% per month for 20 years (CBS News, 2009; Vlessing, 2011). Once the model was investigated and revenue streams analyzed, Markopolos concluded that there was no legal way for Madoff to have been investing money seeing growth at a nearly perfect 45 degree upward curve. Markopolos then submitted a complaint to the Securities and Exchange Commission (SEC) in 2000 detailing his concerns with Madoff's hedge fund (CBS News, 2009); Markopolos would then go on to submit 3 other detailed complaints about Madoff and the impossible returns he was offering, all to no avail. The SEC, despite investigating in 2003 and again in 2007 failed to uncover obvious indicators of the fraud being committed (Farrell, 2009; Moyer, 2008; Weil, 2008). It was not until 2 clients attempted to withdraw accounts (totalling \$7 billion USD) that the Ponzi finally collapsed upon itself as Madoff did not have enough liquidity in the JPMorgan Chase

bank account to cover those withdrawals (Fishman, 2011; Stempel, 2010; Vlessing, 2011).

Investors have opted primarily for litigious tactics in dealing with the fraud perpetrated upon them by Madoff. Investors have sued the estate of Madoff himself (Bosman, 2011; Cassady, 2011), the SEC (Farrell, 2009), the bank Madoff used in conducting his business (Juan, 2009; Stempel, 2010), and each other (Klasfeld, 2011; Stempel, 2011). There is little group cohesion amongst the Madoff victims; the victims of the Madoff Ponzi scheme formed multiple, smaller stakeholder groups instead of one massive group. Multiple firms of lawyers acting on behalf of multiple stakeholder groups targeted one another in order to secure what they can of Madoff's forfeited assets (Klasfeld, 2011; Singletary, 2011; Stempel, 2011). Existing relationships between Madoff's victims' were present through their country clubs, familial units, investing clubs, etc. (Brockman, 2009; Chung, 2009; Kane, 2008; Lewis, 2011; Lieberman et al., 2008); however, because the pool of investors was so great and so widely disbursed, there was little cohesion amongst the cluster of stakeholder groups (Klasfeld, 2011; Stempel, 2011). This may be due to the fact that in the broad sense the victims had little in the way of personal relationships built with one another prior to this fraud being exposed.

Bernie Madoff pled guilty to 11 counts of securities fraud and money laundering for which he received a sentence of 150 years in prison (Searcey, 2009). Madoff, despite being the mastermind behind the massive fraud, is not alone in facing justice; the former Chief Financial Officer, Frank DiPascali, has pled guilty to 10 criminal charges ranging from conspiracy to securities fraud in exchange for his assistance and testimony against Madoff, and could face up to 125 years in jail if given the maximum sentence (Healy &

Henriques, 2009). DiPascali is still awaiting sentencing by the courts as of this writing. The accounting firm which did all of the work for Madoff's financial empire was a major clue something was amiss if any due diligence was done: the accounting firm had exactly one active chartered accountant working for it and was not peer reviewed to ensure proper accounting rules were followed (Roybark, 2009). The accountant who supposedly audited Madoff's empire, David G. Friehling, has pled guilty to filing false audit reports to the SEC, aiding and abetting fraud, and securities fraud in exchange for helping prosecutors with the Madoff case (Hamblett, 2009). If given the maximum sentence, Friehling could face up to 114 years in prison (Hamblett, 2009); however, the courts will not sentence Friehling until March, 2012 (Pavlo, 2011).

Madoff's assets were seized and sold off to compensate victims (de la Merced, 2009); as well estates of deceased beneficiaries of Madoff's scheme have contributed restitution to some victims (Stempel, 2011). Because there are restitution funds available, unfortunately, a situation has been created where stakeholders are left fighting amongst themselves to recover lost capital (Klasfeld, 2011; Stempel, 2011).

Earl Jones

Earl Jones operated as an investment advisor in the Montreal area from 1979 to 2009 (Patriquin, 2009). Jones handled everything for his clients: bill payments, securing mortgages, taxes, managing trust accounts and traditional investing opportunities (CBC, 2010; Ha & Perreux, 2009; Sutherland, 2009a, 2010d). Earl Jones, despite not being a registered investment advisor, operated the Earl Jones Consultant and Administration Corporation (with listings in the phone book as a financial planner) for nearly 20 years (CBC, 2010; Friday, 2009; Sutherland, 2010e). Earl Jones' investors would give Jones

investment capital or estates to manage and would see regular returns on their investments paid out at approximately 8% per annum (Patriquin, 2009; Sutherland, 2009a, 2010e). Jones used Royal Bank of Canada (RBC) cheques for his commercial (and later personal) account with 'In Trust' written upon them creating the illusion that the account was an actual trust account, when in fact it was not (Ha, 2010; RBC knew, 2010; Watson, 2010). However, instead of investing the money, Jones would deposit the incoming money to his 'trust' account and pay out returns from the banked principal (CBC, 2010; Friday, 2009; Ha, 2010; Sutherland, 2010c).

The Earl Jones case involved a relatively small number of victims ($n=158$) that suffered a combined loss of approximately \$50 million CAD (CBC, 2010; Ha & Perreaux, 2009). The majority of the victims were either directly related to Jones or part family of friends invested with Jones (Anonymous, 2010b, 2010d; Friday, 2009; Ha & Perreaux, 2009). Jones relied mostly on his own network of friends and family as a source of victims for his fraud (Patriquin, 2009; Watson, 2010). In the later stages of his Ponzi, Jones' fraud extended beyond his own family and friends; Jones targeted terminal and elderly patients in retirement homes, charmed the victims into modifying their last will and testament, then schedule a probate case and establish himself as executor of the will after the death of the client and gain access to their estate (Friday, 2009; Ha & Perreaux, 2009).

The victims of the Jones scheme shared a few common demographic elements: first, they were elderly and for the most part wealthy (Patriquin, 2009; Sutherland, 2009b, 2010c); second, they all were living (or invested through someone living) within the province of Quebec at the time of the initial investment (Anonymous, 2010c; CBC, 2010;

Sutherland, 2009a, 2010e); and third, the vast majority of victims personally knew, or were related to Earl Jones (Anonymous, 2010b; Davidson, 2009; Patriquin, 2009; Sutherland, 2010b). Trust in Earl Jones was the single most common reason given by victims for choosing to invest their money with him (Patriquin, 2009; Sutherland, 2009b, 2010b). There were no outward warning signs that this was a Ponzi scheme; however, some stakeholders contend that Jones' bank had to have known something was amiss (Ha, 2010; Sutherland, 2010c). Once the Ponzi scheme collapsed upon itself (due to less new money coming in to be invested), the victims, almost universally, expressed the same range of emotions in interviews: anger at the situation and having their trust broken, embarrassment of being caught in a Ponzi scheme, and fear of what will become of them after suffering a (in some cases) huge financial loss⁴.

Once Jones was arrested, the case moved quickly through the legal system culminating in Earl Jones pleading guilty to the Crown's charges (Malfara, 2010; Peritz, 2010). Earl Jones received an 11 year sentence and under Canadian law would be eligible for parole after serving 1/6 of his sentence⁵ (Peritz, 2010; Sutherland, 2009a; Woodhouse, 2009a). Despite failing to catch the Ponzi scheme Jones was running, the Province of Quebec has been hesitant to strengthen its regulatory framework (Anonymous, 2010a, 2010d, 2011; Macpherson, 2009).

The victims of Earl Jones mobilized quickly into action and formed a cohesive stakeholder group; the group even named themselves the Earl Jones Victim Group (EJVG) (Anonymous, 2010b; Martin, 2009). The EJVG initially pursued justice in the

⁴ Some victims have lost their entire life savings, their homes, retirement funds all gone because they trusted Earl Jones with their money.

⁵ This is because of the non-violent nature of the crimes.

form of assisting investigators by providing documentation and statements, later they targeted the RBC also being culpable in Jones' crimes (Ha, 2010; Watson, 2010). EJVG targeted RBC because they felt that reasonable care was not undertaken by the bank. The RBC was aware of Jones using 'In Trust' on the cheques issued to him by RBC to create the impression of a trust account on their cheques five years before the Ponzi scheme failed, yet did nothing to investigate; now RBC is in court being sued by the EJVG for their lack of oversight (Ha, 2010; Watson, 2010). Moreover, the EJVG is now engaged in political action attempting to raise awareness of white collar crimes in the lax Canadian legal system (Anonymous, 2010d; Macpherson, 2009; Woodhouse, 2009a, 2009b); they are advocating for stiffer penalties, easement of tax burdens paid on non-existent capital gains and increasing the awareness amongst regulators. As well, some of the victim stakeholders have launched independent lawsuits targeting non-bank entities that facilitated Jones (Sutherland, 2010d).

There are a few factors which have led to tight group cohesion with the EJVG. First, Jones victims, for the most part, were targeted because of their relationship with Jones; that relationship translated into increased trust in Jones and most victims felt that they did not need to engage in much due diligence. Second, the EJVG enlisted a single lawyer to act as a spokesman for the group. Virtually none of the \$50 million CAD was recovered; however, some money has been refunded by insurance companies (Sutherland, 2010a) and taxes paid on non-existent proceeds (Sutherland, 2011b).

Road2Gold

This is a recent Canadian case where investors were led to believe they were buying designated lots of raw ore (that allegedly contained gold at an assay of 0.1 ounce

per ton) and were told that the ore was not technically a security; the transaction was described to investors as mercantile in its nature and thus immune from the jurisdiction of securities commissions and their regulations for accredited purchasers (McCormick, 2010). World markets were already in free fall when this opportunity was presented to investors, and gold was an alluring investment option⁶. Road2Gold's business was built upon an electronic purchase portal model that would connect the purchasers and processors, the founder even went so far as to patent the business model. In this case, 'mercantile' was part of the scam as it was part of the sales process wherein the transaction was likened to a retail transaction rather than a paper trade in commodities (and thus more heavily regulated) (McCormick, 2009, 2010). Investors would, supposedly, purchase raw ore which would then be sent for processing, once processed, the gold would be sold to third party investors, profits would be then sent out and repurchase of original principal would be repeated if so desired (McCormick, 2010; Road2Gold, 2009). Because the investment was (supposedly) mercantile it was allegedly guaranteed against loss, as the company had proven assays, the land lease (the offering company would keep any other precious minerals resulting from processing) and the liquidated capital assets were alleged to more than guarantee investor's capital (McCormick, 2009). As part of the sales pitch to investors, the raw tailings purchase was likened to buying a toaster: if the customer was not happy with their toaster (ore tailings) they could return it for the original purchase price with no questions asked. The reality was that there were never rights secured for the ore itself (Doe, 2009)⁷, yet initial

⁶ When this investment was presented in the early summer of 2009 to customers, gold was trading at approximately \$900 per ounce (McCormick, 2009). As of September 26, 2011 gold is trading at approximately \$1600 per ounce, nearly doubling in value in two years.

⁷ The name of the email sender has been changed to preserve confidentiality.

investors were paid out processing proceeds (McCormick, 2009, 2010). New investors were injecting funding that was rerouted to original investors; a classic case of Ponzi scheme.

In April 2009, Road2Gold sent out an email update to investors, rather than ‘blind carbon-copying’ the email group, the email was sent out with all investors carbon-copied (Road2Gold, 2010). This mistake, on the part of the firm, allowed investors to communicate with one another and mobilize towards recouping their lost investments. The Road2Gold case involves people ($n=300$) spread across North America, with the majority of victims concentrated in Western Canada (McCormick, 2009). The majority of investors committed less than \$50,000 CAD each to the endeavour, yet to some of the stakeholders it represents a massive financial commitment (McCormick, 2009, 2010).

Because there is no central Securities and Exchange Commission, British Columbia, Alberta and Ontario’s commissions have each been alerted to the workings of Road2Gold; however, because Road2Gold was incorporated in the United States (US), the ore bought originated in the US, and money transferred to the US, jurisdiction and enforcement has become a challenge (McCormick, 2009). The RCMP was alerted in 2010 about this case; however, nothing has been done by them beyond initial investigation of the documentation and preliminary statements from group leadership members (McCormick, 2009). The Federal Bureau of Investigation and American SEC have also been alerted; however, as of this writing little has been done to rectify the situation (McCormick, 2009).

Group leadership in the Road2Gold case is composed of a few people widely spaced geographically who meet irregularly via Skype. There are lawyers who were caught in this Ponzi scheme (McCormick, 2009); however, they do not wish to be part of the leadership and have taken a more passive role within the group. The group has an email list to keep all stakeholders within the group updated; however, few stakeholders respond to questions, or calls to contact the authorities.

Emergent Categories

The selective coding phase of data analysis generated the categories used in Table

2. The categories include:

- Demographics of victims;
- Proximity of victim to fraudster;
- Pre-crisis attitude of victims;
- Post-crisis attitude of victims;
- Legal involvement pre-crisis;
- Speed of legal enforcement post-crisis;
- Stakeholder leadership;
- Overall stakeholder cohesion;
- Tactical goals.

It was these categories which formed the basis for the framework for theory described in the next section.

Table 3: Matrix of Commonality amongst Cases

	Bernie Madoff	Earl Jones	Road2Gold
Demographics of victims	Middle to upper socioeconomic class; thousands of victims widely disbursed	Upper class; 158 total victims contained within the Province of Quebec	Lower to upper socioeconomic class; hundreds of victims mostly in Western Canada
Proximity of victim to fraudster	Many middle men between fraudster and victims	Personal relationship with fraudster; sought investments from family and friends	A few middle men between fraudster and victims
Pre-crisis attitude of victims	Sought higher than standard returns; trusted reputation	Sought secured investments; steady returns; personal trust in perpetrator	Sought secured investments; steady returns, personal trust in brokers

	Bernie Madoff	Earl Jones	Road2Gold
Post-crisis attitude of victims	Anger, embarrassment, financially hurt, determined to have restitution and punish perpetrator	Anger, embarrassment, financial devastation, determined to punish perpetrator, wanted to change regulations	Anger, embarrassment, financially hurt, determined to have restitution and punish perpetrator
Legal involvement pre- crisis	16 years of complaints to SEC (with 6 substantive complaints); missed warning signs; minimal investigation	Initial complaints triggered investigation and conviction	Securities investigations (three different provinces: AB, MB, ON ⁸); cease trade orders issued in British Columbia
Speed of legal enforcement post-crisis	Expedient once fraud revealed; 150 year sentence; no chance of parole	Expedited once the scheme was revealed; sentenced to 11 years; eligible for parole after 22 months (December 2011)	Extremely slow; RCMP deciding whether to fully investigate (January 2011 – present)
Stakeholder leadership	No single voice amongst fractious groups; multiple lawyer	Individual spokesman for group; committee leadership; single lawyer advocate for group	Multiple spokesmen for group; committee leadership; multiple lawyers involved (but only in advising capacity)
Overall stakeholder cohesiveness	Loose cohesion; multiple groups; focused on getting money back.	Strong cohesion; single group; moving beyond legal fight into political action	Loose cohesion; single group; focused on getting money back
Tactical goal	Secure as much lost money as possible from seized fraudster assets; determine why SEC did not heed warning signs	Pursuing action against fraudsters' bank, estate and those who aided in the fraud; political actions to change sentencing laws for white-collar crimes	Secure lost capital; see that fraudster is punished

Framework for Theory

Upon reviewing the three cases, the initial research questions can be revisited within the theoretical framework that emerged from the study. The three overarching

⁸ AB, MB, ON are the abbreviations of Alberta, Manitoba and Ontario respectively.

questions primarily focused on victims' perceptions of themselves as members of a stakeholder group, the source of leadership for stakeholders, and victim group mobilization. The emergent theoretical framework captures each of these aspects.

Member Perception

The self-perception of stakeholders as being part of a global group of victims varied greatly between the three cases. The EJVG was the most cohesive of all three cases. Those victims, for the most part, had previously existing close relationships with one another as they were related to, or friends with Earl Jones. Moreover, the EJVG stakeholder group's close geographical proximity to one another and relatively low population (they could easily fit in a large restaurant or small conference salon) made for a stronger identity within the group which seems to have led to increased cohesion for the group. Conversely, the victims of Madoff are polarized: there are thousands of Madoff victims spread across North America and Europe. In the Madoff case, the lack of relationships pre-Ponzi scheme limited victims' identifying as being part of a group, which led to lower group cohesion. In the Road2Gold case, there were cliques of people that had existing relationships prior to investing; however, they were definitely in the minority. Thus the Road2Gold case falls roughly in the middle of the extremes of the Jones and Madoff cases.

Considering this emergent spectrum then, the theoretical framework for stakeholder perceptions is represented in Figure 1.

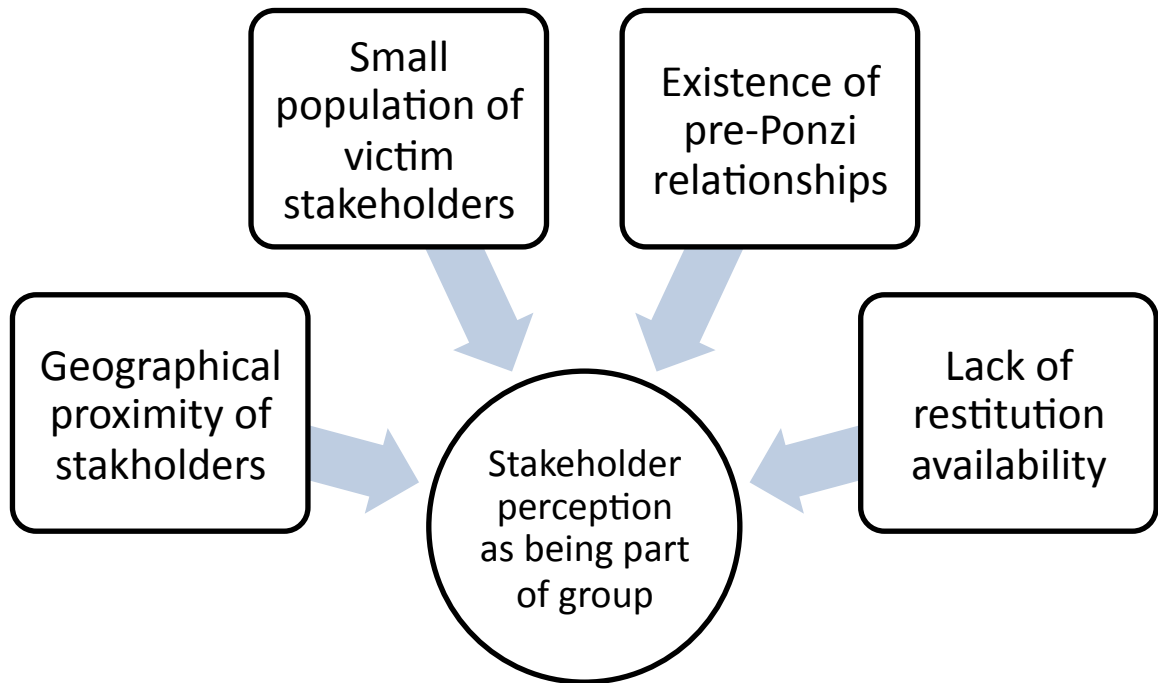


Figure 1: Theoretical framework for stakeholder group perceptions

Given this theoretical model, maximizing the individual stakeholder perception as being part of a unified group appears to be contingent on a few factors: first, close geographically to one another; second, a small number of stakeholders; and third, the existence of relationships that predate the fraud. Additionally, the absence of restitution funds for the victims (or other monetary inducements) also appears to be positively correlated with the cohesiveness of the group identity. In the Madoff case, once whatever assets available were seized and liquidated, there was a pool of approximately \$7 billion USD available for victims; however, this pool of money quickly became a bone of contention and has sparked many legal challenges as to who gets what portion of the remaining funds. In the case of Jones, there was simply no money left from his fund and all of his assets had already been either liquidated or heavily leveraged to continue the Ponzi. The Jones case clearly had the strongest group identity, yet there was no restitution available. It is my contention that removing monetary motivators for

stakeholders might lead to stronger stakeholder group identity, such as with the EJVG, which in turn would in turn lead to the creation of a cohesive social movement; by not making money the goal, stakeholders may be more willing to identify as being part of a whole group which would lead to increased cohesion. In the case of Road2Gold, it is still unclear as to what assets are available to appease investors; moreover, Road2Gold's assets are protected by the corporate veil, meaning that unless the corporate veil is lifted by the courts, the directors and shareholders are limited in their liability, thus if the corporation has no assets, there is nothing then to liquidate and return to investors.

Based upon the data, it would appear that group cohesion is tied to how strongly the individual stakeholder identifies a bond with the other stakeholders within the group. In the Madoff case, stakeholders were widely disbursed geographically, with little in the way of pre-existing relationships before the fraud was exposed. The Madoff stakeholder group is continuing to fight for the scraps of his empire and thus might self-identify as victims but not necessarily as being part of a homogeneous group, this is evidenced by the presence of many lawsuits being filed against one another. In the Jones case, the pool of stakeholders was relatively small, virtually all the stakeholders knew or were related to one another and Jones had virtually no assets left to divide amongst victims. The EJVG has shifted their initial scope beyond seeing justice done, they now are moving towards advocacy for harsher penalties for white-collar crimes. In the Road2Gold case, regular communications and stakeholders giving personal updates continue as the group seeks justice and restitution for the fraud committee against them.

Reluctance of stakeholders to identify as stakeholders coupled with the relatively low group cohesion in the Madoff and Road2Gold cases would seem to suggest that there

is less of an identity-based move towards action and more of an instrumentality-based mobilization towards action. In the case of Madoff, the divergent multi-stakeholder group dynamic is anathema to building identity-based action because there is no pride in being a part of said group and thus little shared group identity (Farrell, 2009; Stempel, 2011). In the case of Road2Gold, there is virtually no bonding between stakeholders beyond discussing restitution from the firm: there is no pride in being a part of the group and there is no joy in undertaking justice in an uncooperative legal system (McCormick, 2009).

In opposition to Madoff and Road2Gold, the EJVG has demonstrated clear stakeholder identity-based mobilization. In their pursuit of changing the legal system and holding the fraudster (and those who aided the fraudster) accountable (Watson, 2010; Woodhouse, 2009a), Jones' victims have formed a cohesive unit that bond through shared stories and experiences, as well as support each other (Sutherland, 2009b, 2011a; Watson, 2010).

Stakeholder Leadership

The second question asked in this thesis was how stakeholders moved towards collective action and how the group organized itself. Because Ponzi schemes virtually always result in legal actions against the fraudster (either detected by authorities or collapsed because of a lack of new funds), his company and other culpable entities (banks, brokers, sales agents, and others with fiduciary duty of positive interest), the presence of a lawyer is definitely required in any stakeholder group. In the Jones and Madoff cases, hired attorneys became de facto group leaders for two reasons: first, lawyers typically advise clients not to speak publically about the cases (as they did not

want stakeholders jeopardizing the resulting court cases); and second, those same lawyers would shepherd the case through the legal system so they would need to be involved in the research and planning of stakeholder legal actions. In the Road2Gold case, there is no attorney spearheading the leadership which might explain the long time delays victims endure to see justice and restitution done (McCormick, 2009).

The factors that emerged from examining stakeholder leadership are illustrated in Figure 2. A smaller population of victims, less fractious groups within the larger stakeholder collective, resulted in stronger group leadership. Moreover, when there exists an opportunity to continue stakeholder relationships amongst themselves and direct group attention to non-court issues, leadership becomes further reinforced. Lastly, strong legal representation as a part of the stakeholder leadership directed efforts more effectively towards stakeholder goals.

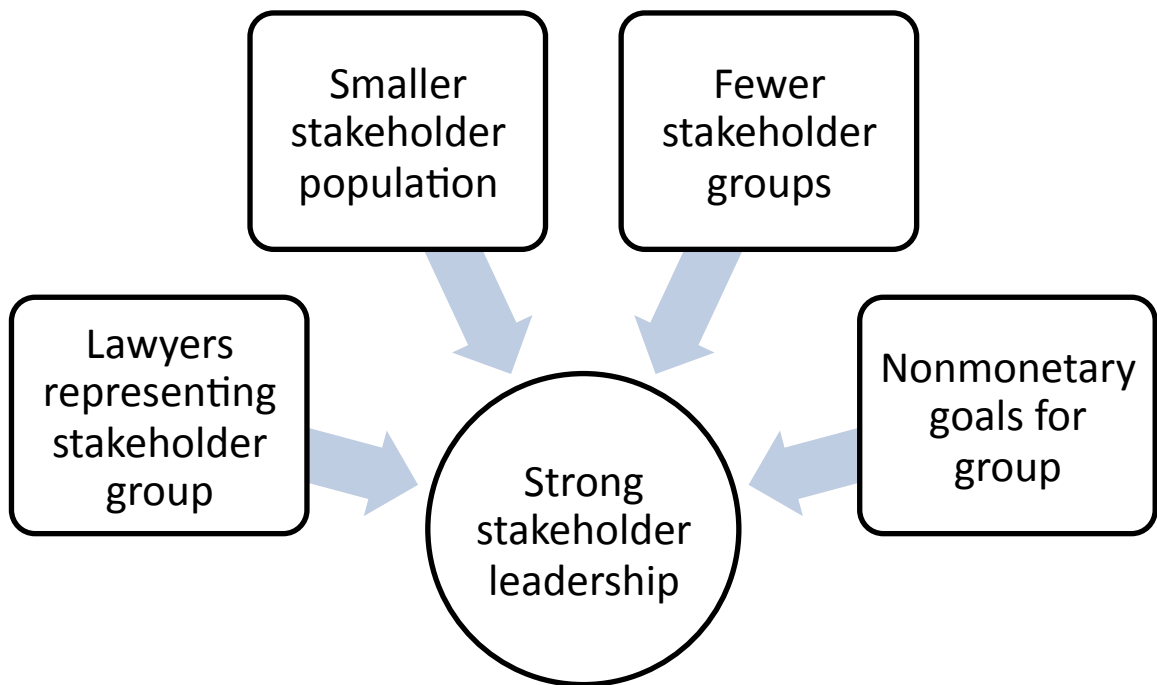


Figure 2: Theoretical framework for stakeholder leadership

Stakeholders' mobilizing towards collective action, like any social movement, typically requires strong, effective leadership (Jones & Kriflik, 2006; López-Pérez, 2009; Pryke, 2005). Individual stakeholders with no relationship amongst one another, widely disbursed (as in the Madoff and Road2Gold cases) tended towards infighting over the scraps of assets without strong leadership to manage divergent agendas and keep the group on task. In the Jones case, a leadership committee was struck with legal representation present that held in-person meetings, managed message boards on the World Wide Web and explored other avenues of directing group energies beyond justice for the fraudster (Anonymous, 2010b; Sutherland, 2010c; Watson, 2010).

Stakeholder Mobilization

The last research question asked how stakeholders mobilize and organize as a group. Are stakeholders self-organizing, for example, or are outsiders organizing and directing them? Gathering specific data on this question from publically available data was difficult; however, several factors did emerge from the data analysis portion of this study. These three cases appear to have stakeholders mobilizing towards two goals. The first goal is that the offender is punished and restitution is attained (if possible) for the victims; the second goal is changing the regulatory climate to catch corporate fraud earlier and ensure that a satisfactory level of punishment is imposed on the perpetrator(s), which is a boon for the stakeholders specifically, and society generally. In the Jones case, the EJVG lobbied the government to assign longer sentences to white collar crimes, and to require the taxes paid by investors for fraudulent proceeds returned. In the Madoff case, stakeholders pressed legislators as to why the SEC did not catch Madoff's fraud during one of their many investigations.

In the Madoff case, stakeholders primarily mobilized as a group in assisting authorities build their case against Madoff; however, the stakeholders tended to act individually (or in small, independent groups) after Madoff was processed in the justice system. The Madoff group of victims were vocal in online forums and traditional media outlets, they launched lawsuits and applied regulatory pressure; however, a cohesive group was never created broadly amongst stakeholders.

Alternately, in the Jones case, the small number of stakeholders had existing relationships binding them together prior to the fraud as well as strong group leadership with lawyers advising and helping direct group action for maximum effect. The EJVG simply did not have funds to pursue, yet stayed together as a group, after Jones was processed in the Justice system, to lobby for stronger sentences and changes to the parole system.

Figure 3 shows the theoretical framework that emerged from the three cases. Within the framework, the extent to which stakeholders mobilized was dependent upon several factors: overall stakeholder cohesiveness (i.e., stakeholders' perception and identifying as being a stakeholder and part of a single group from Figure 1), the relative strength of stakeholder group leadership (i.e., the theoretical framework offered in Figure 2), and whether there were alternate issues that were important to the stakeholder group to act upon (i.e., social or political issues that could be acted upon).

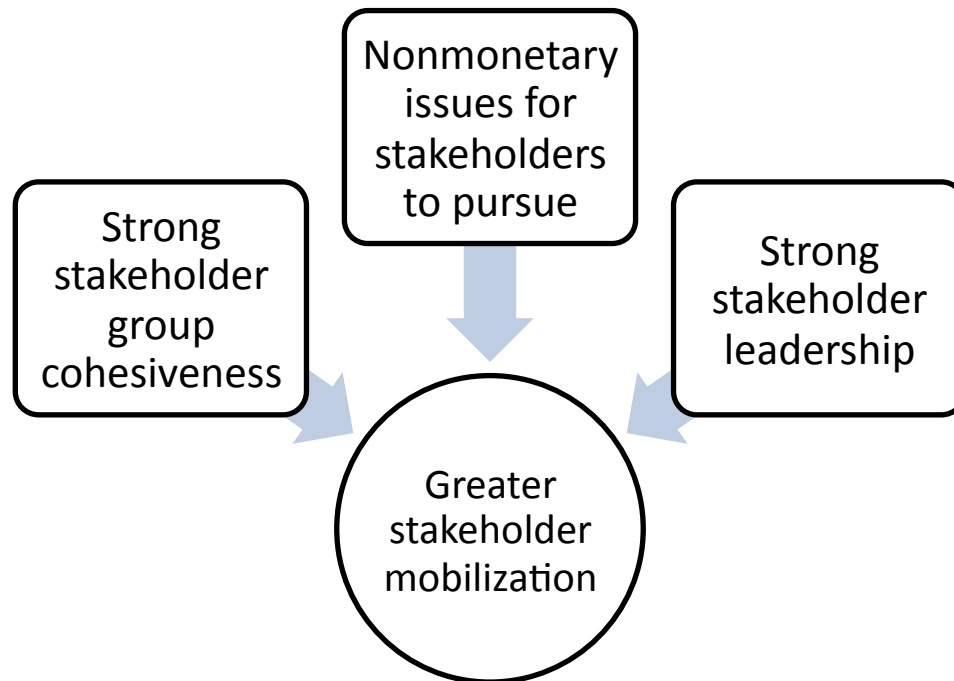


Figure 3: Theoretical framework for stakeholder mobilization.

Generally speaking, stakeholders were more effective at mobilization when the group: was smaller; had a strong centralized group leadership; and, there were alternate issues for the stakeholders to pursue as a collective (such as increasing penalties for offenders or lobbying governments to return taxes paid on fictional proceeds).

Stakeholder discord arose when close geographical proximity was absent, when the group leadership failed to achieve consensus amongst stakeholders within the group, when there was more than one victim group present, and when there were money and assets left over from the fraud. Further, when there was money available, discord amongst stakeholders rose and stakeholder cohesion fell.

Figure 4 illustrates the factors that will increase group cohesion and movement towards mobilization versus the factors that will increase discord amongst the stakeholder cohort.

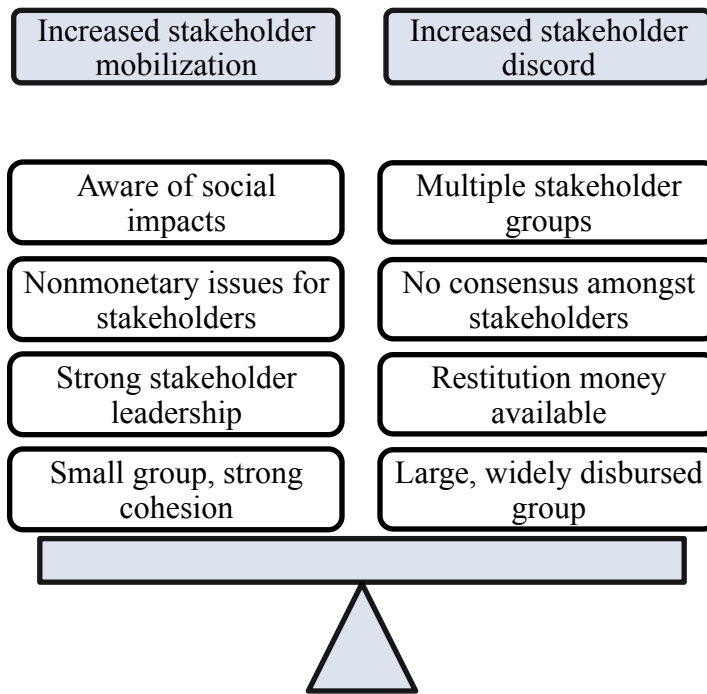


Figure 4: Increased stakeholder mobilization versus increased stakeholder discord.

Discussion

This study yielded a number of potential research questions from the analysis of the data. It is my assertion that a valuable distinction can be drawn in stakeholder research between stakeholder types: reluctant stakeholders and engaged stakeholders.

Reluctant stakeholders, in my view, would be those people that have had an unforeseen and unwelcomed event thrust upon them (i.e. their investment capital misappropriated, water source fouled, etc.). The reluctant stakeholder cohort might not be interested in identity-based mobilization beyond simply recovering what was lost or moving back towards as close to the baseline situation as possible, which suggests an instrumentality-based mobilization. In the case of a community suddenly finding their water source fouled by industry operations, the community might mobilize to compel the enforcement of local environmental laws, and push for cleaning up of the water source. The reluctant stakeholders might be mobilizing towards activism and getting clean water sources for their community again, but they remain uninterested in other fights for clean water in distant geographical locations.

The engaged stakeholder would mobilize alongside the reluctant stakeholder groups; however, engaged stakeholders are ready to take action beyond merely recovering what was lost. It is my contention that engaged stakeholders are the cohort that do not just seek to recover what was lost, they seek to change their community and society through formulating social movements. Emergent leadership might be able to rally stakeholders together into a unified group and shift perceptions from anger over what was lost into pride over the battle that could be fought and changes that might be achieved as a result. In the case of a community's fight over a contaminated water

source with industry, engaged stakeholders might seek to form networks with other communities, both locally and internationally, in an effort to change not only the firm's behaviour but to alter environmental laws.

The following series of research questions offer further avenues to pursue on this matter in order to determine if the relationships within the cases are indeed universal, or specific to these particular situations. The generated questions, broadly, fall into three categories: identity of stakeholder groups, leadership of stakeholder groups, and mobilization of stakeholder groups.

The Government as Stakeholder

Clearly, the government is a stakeholder when corporations behave badly; however, from the evidence in these cases the government is a reluctant stakeholder at best and an engaged stakeholder acting in the corporate interests at worst. There are certainly agency problems that arise for regulators and lawmakers when corporate money (read: political donations) is considered free speech which leads to situations that “stifle political speech by causing corporations to distance themselves from politically sensitive issues and candidates, and by creating administrative barriers to the efficient operation of the corporation” (Smith, 2011). The line between corporate interests and elected officials is not just blurred; it is all but gone (Fang, 2011; Harris, 2011; Stathis, 2011). The question then arises: what are individuals to do when the most powerful stakeholder (i.e. the government), is only willing to take only minimal action in combating white-collar crime? This could lead to interesting research on business regulations and stakeholder reactions to those regulations.

R₁: How effective were business regulations in protecting stakeholder interests?

There is a revolving door, particularly in the United States, of people shifting from the role of being a government regulator to working as a regulated industry lobbyist or vice versa (Martin, 2011), or worse, lawmakers simply selling access time directly to lobbyists (Fang, 2011). This apparent corruption of safeguards for the commons might add to the malaise and hopelessness investors feel when caught in a fraud, and lessen the chance of stakeholders mobilizing (either reluctant or engaged) which leads to the subsequent research question.

R₂: For stakeholders affected by fraud, to what extent does frustration with the legal system contribute to their mobilization towards action?

Recently, it has come to light that the SEC has been destroying records it was supposed to keep for 25 years (Gallu, 2011; Rothfeld & Strasburg, 2011; Tiabbi, 2011). The preliminary investigation records of thousands of cases have all been purged, contrary to the public interest, but greatly in favour of corporate interests. In the case of Madoff, the government had ample warnings that something was amiss (Davis, 2009, 2010; Moyer, 2008); however, the government as a stakeholder did not fulfil its duty to any meaningful degree before thousands were victimized (Tiabbi, 2011). In the Madoff case, I would argue that the government was an engaged stakeholder working to further the narrow interests of the corporation. Madoff himself was very generous with his political donations and access to lawmakers given his 20 year career (Zajac & Hook, 2008). The SEC knew something was wrong, yet destroyed preliminary evidence against

Madoff which might have helped subsequent investigations, despite a clear directive not to destroy such evidence (Davis, 2009; Gallu, 2011; Tiabbi, 2011).

In Canada, there is no national securities regulator which leaves provincial commissions to investigate internally and the RCMP to investigate white-collar crimes nationally. Canadian lawmakers are considering sweeping omnibus crime bills, yet leave out increased punishments for coordinated white-collar crimes (Astaphan, 2011); moreover, if the Canadian government were a serious stakeholder in upholding its duty to prevent and investigate white-collar crimes it would not have slashed the RCMP budget by 15% since 2009 (Freeze, Curry, & Leblanc, 2011). The reality is that the Canadian government is not tough on white-collar crime at all. The RCMP is cutting back on its investigations into white-collar crime despite a rising number of cases and is largely ineffective in pursuit of justice (Freeze et al., 2011; Williams, 2008). The Canadian court system is far too backlogged to be effective in any meaningful way (Foot, 2011; Tyler, 2007). With no real support from the most powerful stakeholder, namely the government, victims of corporate transgressions are left virtually powerless against corporate fraud despite having legitimate complaints.

As mentioned earlier in this thesis, there is very little research targeting corporate fraud, specifically Ponzi schemes. The literature on fraud that is available, mostly addresses internal accountancy and human resource controls. Given the increasing prevalence of white-collar crime in North America, there is real value in studying and understanding stakeholder dynamics in the context of corporate fraud given the rates of occurrence. Canada is a relatively small country in terms of population, yet is ranked seventh in the world for frequency of white-collar crime (United Nations, 2008), a

number that does not capture the cases that go either unreported or un-investigated (Freeze et al., 2011). White-collar crime destroys people's lives and often leaves the elderly utterly destitute. White collar crime affects more people than violent crime does, but receives less attention from the RCMP, government regulators, or researchers. Victims deserve redress, the public deserves better protection.

Further research by organizational researchers, such as that proposed here could contribute to improved solutions for monitoring and reducing corporate fraud. With adequate investigative and judicial support, engaged stakeholders could be empowered to take significant action against those that perpetrate fraud on investors. Public policy must address the development of consumer supports and protections to encourage investment opportunities without fear of intentional ruination by the firm. Public policy and legislation need to be crafted and enforced, but more importantly these efforts must be properly funded and monitored in order to safeguard the public trust. Business academics have an opportunity to understand the role of the affected stakeholders and how they may exert a positive influence in the broader effort to reduce corporate fraud and limit the potential damage of wayward corporate citizens.

Identity of Stakeholder Groups

It remains unclear to what extent stakeholders affected by fraud identify as being part of a larger cohort. Furthermore, the question of whether there is a difference between reluctant and engaged stakeholders self-identifying as being part of a larger group should be examined. Further research into reluctant (or engaged) stakeholder group identity affected by corporate fraud could explore:

R₃: What are the differences between reluctant and engaged stakeholder cohorts in self-identifying as group members?

R₄: Do common demographic factors play a role in determining whether stakeholders mobilize into action?

Pursuing these research questions would offer an opportunity to further explore, for example, the trichotomy of interest-based versus identity-based versus ideological-based mobilization. Stakeholder mobilization appears to be much more effective when an identity-based action is undertaken particularly with engaged stakeholders (e.g. EJVG). Understanding the factors that shift the reluctant stakeholder group from interest to identity-based mobilization could be critical for stakeholders to become engaged beyond simply recovering the status quo. The initial crisis (the fraud or wrong committed) appears to be the impetus towards action despite Rowley and Moldoveanu's (2003) assertion that interest-based action is not a primary motivator. However, my findings indicate that moving the reluctant stakeholder group towards identity-based engagement could create an enduring social movement of advocacy. This would then support the Rowley and Moldoveanu (2003) model. Identity-based group action is at the heart of new social movement theory and could be further tested against the other dimensions of social movements (Klandermans, 2004), specifically, instrumentality and ideology-based motivators.

Leadership of Stakeholder Groups

Further research into stakeholder group leadership facing corporate fraud or other impropriety could explore:

R₅: Does strong group leadership play a role in stakeholder mobilization efforts? If it does play a role, what difference does group leadership make between reluctant and engaged stakeholder cohorts in mobilization efforts?

Stakeholder leadership has the opportunity to manage a reluctant group's perceptions, namely, shifting the humiliation and rage initially experienced into pride and well-being by achieving enduring and tangible results for engaged victims (i.e. seeing the fraudster incarcerated, protests that alter government policy, etc.). Testing stakeholder mobilization against corporations behaving badly could potentially dovetail with charismatic authority literature since the success of stakeholder groups achieving their goals is seemingly dependent upon the strength of leadership. A charismatic leader (or leaders) might be the catalyst in forging reluctant victims into social activists which sow the seeds of a new social movement composed of highly engaged stakeholders that act based upon identity, ideology and interest-based motivations.

Mobilization of Stakeholder Groups

Further research into mobilization of stakeholder groups facing corporate malfeasance could investigate:

R₆: Does the perception of being part of a cohesive group increase the probability of stakeholder mobilization?

R₇: How and when do reluctant and engaged stakeholders differ in their mobilization initiatives and strategies?

There exists a rare opportunity to connect social movement theory with stakeholder theory by understanding the internal dynamics of group behaviour mobilized

against businesses acting illegally. The economic loss suffered by victims is the initial motivator for group action; however, as was seen in the Jones' case, the group formed because of the initial grievance, despite resource mobilization theory suggesting a movement would not form. In the Jones' case, the EJVG moved from reluctant stakeholders into fully engaged stakeholders regularly lobby the Federal and Provincial governments and could be considered a social movement that are attracting others who seek to identify with the groups ideals and goals and express similar ideology. The group moved towards political action and built the internal group infrastructure as it evolved suggesting that every stream of social movement theory has a part of the whole process, particularly so when considering the shift from reluctant to engaged group membership.

In the Road2Gold and Madoff cases, stakeholders for the most part did not mobilize towards any goal beyond recovering what was lost. In Road2Gold specifically, the reluctant stakeholders did not become engaged stakeholders possibly due to the lack of charismatic leadership and lack of resources mobilized.

Conclusion

Current stakeholder literature has focused upon the development of models which describe the relationships between the company and stakeholders, with the underlying assumption being that the company is operating in good faith in their dealings with stakeholders. However, in the instance of Ponzi schemes, those traditional assumptions simply cannot be made. The models do not apply. The characteristics which are assumed in the current body of stakeholder literature do not match the characteristics of stakeholders that are victimized by corporate malfeasance. The majority of current literature on corporate fraud focuses upon human resource prevention and accounting tactics for detection of fraud; rather than any issues that stakeholders face when confronting corporate fraud. The central issue within the three cases chosen illustrates how stakeholders identified themselves and mobilized in response to corporate fraud.

This thesis investigated and analyzed three cases of Ponzi scheme in order to determine: stakeholder's perception of being part of a cohesive group; stakeholder leadership that emerged from within the group; and, factors that influence whether stakeholders mobilize in response to the corporate malfeasance. As a result of this study, there appear to be a number of factors which influence each of the research questions initially asked. These factors (or categories) were developed from a grounded theory approach to the data analysis using open, axial, and selective coding techniques which identified specific case elements, categories and themes which are common amongst the three cases. As a result of this study, a theoretical framework which would predict how the identified characteristics in a case of corporate fraud would address the research questions has been developed.

This thesis has added to the literature in a number of ways. First, we draw the distinction between reluctant stakeholders and engaged stakeholders. Reluctant stakeholders would appear to be motivated by interests and not take pride in self-identifying as part of the group; reluctant stakeholders seek to only get back what was lost or taken from them. Engaged stakeholders, on the other hand, see the situation as an opportunity to turn the mobilization into a movement which attracts others to the cause. Engaged stakeholders have identity, interest and ideological needs met by participating in group actions. Second, the determinants for self-identifying as part of the group, and factors for group success are proposed to be tested in the future. Lastly, highlighting the opportunity for cross-disciplinary research into stakeholder mobilization and victim group relationships would provide valuable insight for the public, NGOs, governments and corporations.

My thesis was limited in both scope and available resources. Only two cases had publically available information in the form of articles, published interviews and weblogs available; whereas the third case's source material came from my own journal and statements to law enforcement officials. Clearly, a larger sample size of stakeholder groups affected by fraud is necessary; moreover, other stakeholder groups affected by corporate malfeasance beyond fraud should be examined as well to confirm my findings. The materials written on both Madoff and Jones have tended to focus on the perpetrator, rather than on stakeholder stories, thus interviews with actual victims in the future would definitely be of value. Firsthand accounts of the victims' stories gathered, coupled with an interview guide or questionnaire would address and further validate my findings.

By their very nature, case studies using a grounded theory approach are specific to their cases and preliminary in their findings; however, it is my hope that this thesis will have relevance to other cases of stakeholder mobilization beyond the three cases used. It is to that end that I have offered a series of research questions to be answered in subsequent research to validate my conclusions. This thesis has shown that there is an opportunity to bridge sociological, political science and managerial studies to explain group movements against bad corporate citizens, particularly when a fraud has been committed. Rowley and Moldoveanu (2003) suggested that stakeholders take pride in identifying as being part of the group; stakeholders actively mobilizing as a group, assisting law enforcement and lobbying government for harsher penalties for fraudsters is definitely something to be proud of. When social movement theory is considered along with Rowley and Moldoveanu's (2003) model, enduring movements seem to have interest and ideological-based motivations in addition to identity-based motivations.

Exploration of a social movement's resource mobilization strategy in influencing firm behaviour in the context of Frooman's (1999) resource dependent withholding strategies would be valuable in understanding which resources are truly necessary for successful mobilizations. Exploration of emergent leadership in stakeholder groups from both a management perspective and sociological perspective might offer NGOs insight to strengthen their cause and increase their effectiveness at holding business and government accountable for their actions. As well, further research into understanding the process transforming reluctant stakeholders into engaged stakeholders through appeals to identity and ideological-based motivators might bolster the ranks of activist organization membership. Although this study was limited in its scope, it has identified

opportunities to further examine the categories identified and expand both stakeholder and social movement paradigms.

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Indicators to monitor in article	Does the article address:
Demographics of Victims	<ul style="list-style-type: none"> ✓ Age? ✓ Socio-economic status? ✓ Number of victims of fraud? ✓ Amount invested?
Proximity of victim to fraudster	<ul style="list-style-type: none"> ✓ Geographic location of stakeholders? ✓ Was there a personal relationship to fraudster? ✓ If so, what was it? ✓ Nature of relationship to fraudster? ✓ If so, what was it? (Institutional investing, family, friend, colleague, etc.)
Pre-crisis attitude of victims	<ul style="list-style-type: none"> ✓ Attitude of victims towards fraudster? ✓ Feelings about past situation?
Post-crisis attitude of victims	<ul style="list-style-type: none"> ✓ Attitude of victims towards fraudster? ✓ Feelings about current situation?
Legal involvement pre-crisis	<ul style="list-style-type: none"> ✓ Were there regulatory investigations prior to crisis? ✓ If so, what was the result? ✓ Were there lawsuits against the fraudster prior to crisis? ✓ If so, what was the result?
Legal involvement post-crisis	<ul style="list-style-type: none"> ✓ Authority's reaction to fraud, if any? ✓ Regulatory (SEC, etc.) reaction to fraud, if any? ✓ Political reaction to fraud, if any?
Stakeholder leadership	<ul style="list-style-type: none"> ✓ Is there a spokesperson named? ✓ Is there legal representation mentioned? ✓ Is there a named group? ✓ Is there more than one victim stakeholder group mentioned?
Overall stakeholder cohesiveness	<ul style="list-style-type: none"> ✓ Does the stakeholder group still appear to be a cohesive unit? ✓ Are there different agendas amongst stakeholders?
Tactical goals	<ul style="list-style-type: none"> ✓ What were goals of the stakeholders mentioned in the article? ✓ Are other goals beyond the obvious (money back and justice done) mentioned?

Figure 5: Indicator Coding Template