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CRIME BETWEEN ORGANIZATIONS: A CASE STUDY OF MEDICAID PROVIDER FRAUD.

THE OHIO STATE UNIVERSITY, PH.D., 1979

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CRIME BETWEEN ORGANIZATIONS:
A CASE STUDY OF MEDICAID PROVIDER FRAUD

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By
Diane Caskey Vaughan, B.A., M.A.

* * * *

The Ohio State University
1979

Reading Committee:
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Approved By

Advisor
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Scholarly work is excruciatingly lonely sometimes.

Gilbert Geis, Economic Crime Conference
Columbus, Ohio, January, 1975

DOLOR

I have known the inexorable sadness of pencils,
Neat in their boxes, dolor of pad and paper--weight,
All the misery of manilla folders and mucilage,
Desolation in immaculate public places,
Lonely reception room, lavatory, switchboard,
The unalterable pathos of basin and pitcher,
Ritual of multigraph, paper-clip, comma,
Endless duplication of lives and objects,
And I have seen dust from the walls of institutions,
Finer than flour, alive, more dangerous than silica,
Sift, almost invisible, through long afternoons of tedium,
Dropping a fine film on nails and delicate eyebrows,
Glazing the pale hair, the duplicate standard faces.

Theodore Roethke

A classic case of over-education.....

Simon Dinitz, on reading Chapter III
ACKNOWLEDGMENTS

A dissertation is the outcome of an academic process. The process is not confined to the actual research and writing of the work, but is initiated long before. I would like to acknowledge here the many people who have contributed, directly and indirectly, to the process which culminates with this research. My gratitude goes to:

Eva Sebo, who provided the role model; David M. Petersen, who first interested me in criminology and encouraged me to go to graduate school; Simon Dinitz and John P. Conrad, who gave me the first research assistantship and first stimulated my interest in crime of organizations through a graduate seminar; Frank Hanks, the appliance repairman; Ronald G. Corwin and Laurel Richardson Walum, whose knowledge and interests broadened mine from criminology to sociology; Adrien Aveni, who taught me how to teach; and Judi Di Iorio, for her personal and intellectual support;

My mother and father, for their constant faith and love; Peter M. Gerhart, whose tangible and intangible contributions to my work are immeasurable; my three children, Butch, Lisa and Susan, who have witnessed all the crises and stood by me; Roger Vaughan, for encouraging me through undergraduate and graduate school; Anna B. Morrow and Beverly Klingensmith, for their deep friendship;
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My committee, Simon Dinitz, Richard J. Lundman, and John Seidler, for their unselfish expenditure of many hours reading and discussing this work: their ideas and suggestions have added exceptional depth and clarity to the research; the personnel of the Economic Crime Unit of the Franklin County Prosecutor's office, Ohio Department of Public Welfare, Ohio State Board of Pharmacy and Ohio State Highway Patrol, without whose cooperation this work would not have been possible; and to Jayme Littleton, who typed drafts and the finished manuscript.
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Complex Organizations. Professor Ronald G. Corwin

Methodology. Professor John Seidler
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Bureau of Surveillance and Utilization Review .................. S/UR
Division of Data Services ........................................ DDS
Economic Crime Unit, Franklin County Prosecutor's Office .... ECU
Ohio Department of Public Welfare ................................ ODPW
Ohio State Board of Pharmacy .................................. OSBdPh
Ohio State Highway Patrol ...................................... OSHP
A Serendipitous Discovery

On May 26, 1976, an alert pharmacist in a discount drug store contacted the Ohio State Board of Pharmacy. He suspected that a local physician was practicing outside his professional area of expertise. The physician's prescriptions were routinely filled at Revco Drug Stores, Inc., the store where the pharmacist was employed. The physician, a podiatrist by training, was prescribing medication not usually required by patients within that specialty. The Ohio State Pharmacy Board began investigating the podiatrist. Months later, on July 1, 1976, an executive vice-president of Revco called the pharmacy board to encourage pursuit of the inquiry. The Revco vice-president suggested examination of the records of one particular Revco store, since the podiatrist's patients frequently used that store for most of their prescriptions.

In order to build a case for the Ohio State Medical Board to charge the physician with practicing outside his professional area, the pharmacy board contacted the Ohio Department of Public Welfare on July 22, 1976. A processor of all Medicaid claims for the state, the welfare department stores vast amounts of data on computer tapes. Though the podiatrist was no longer an approved Medicaid provider, the state still covered his prescriptions to Medicaid recipients because Revco itself was a major
provider. Therefore, the records were available. The welfare department agreed to assist the pharmacy board by requesting a provider claims history from the welfare department's Division of Data Services. A provider claims history is data organized by computer to analyze all Medicaid claims filed by a particular provider along any of several dimensions. In this case, data on all Medicaid prescriptions written by the podiatrist and filled in the pinpointed Revco store were compiled.

During August and September, the computer output was manually examined by an experienced analyst in the Bureau of Surveillance and Utilization Review (S/UR), of the Ohio Department of Public Welfare. This bureau is the investigative component of ODPW. The analyst further decomposed the data by hand, separately chronicling the prescription history of forty-five patients of the podiatrist. This painstaking work exposed an irregularity. The prescription numbers did not flow in the usual ascending numerical order. Instead, lower prescription numbers were occurring within a sequence of ascending numbers. Closer examination revealed that the last 3 digits of certain 6-digit prescription numbers were being transposed. A pattern appeared. A prescription was recorded as a claim, and 3 days later the identical prescription was recorded again with the last 3 digits transposed. (Figure 1) This same pattern appeared in the hand-detailed report of each patient of the podiatrist. The pharmacy board and S/UR agreed to examine other Revco store records in the same metropolitan area.

In October 1976, computer-generated provider claims histories were ordered for 12 additional Revco stores. Several S/UR analysts began manually examining the data in December 1976. Transposed prescription
numbers were found in each of the twelve stores' records, regardless of prescribing physician. In March, 1977 a meeting was held between S/UR representatives and the pharmacy board. Two possibilities were raised. The transposed numbers could have been intentionally computer programmed by the Revco store to deliberately bill for the prescriptions. Or, the errors on the claims history listing could have been the result of a welfare computer mistake. To check the latter, claims histories were ordered for a different drug chain, in order to compare Revco's errors with that of a competitor.

Meanwhile, to determine if records and billings were falsified by Revco, the prescriptions with the transposed numbers had to be verified against originals held in the individual pharmacies. Verification of the questionable prescriptions without arousing suspicion was of the utmost importance. A mechanism was found by which to pursue this investigation discreetly. As part of its routine activity, the pharmacy board regularly sends investigators into licensed drug dispensing facilities around the state to examine records. A Revco store in a remote area of the state was chosen. An investigator who was familiar with the pharmacy in question and whom the pharmacists knew personally was sent to do the job. Lists were prepared of sets of the suspect prescriptions: the first in the set being the earlier entry and the second bearing the same information, yet having a transposed number and a later date.

On March 23, 1977, the investigator visited the store. For the first prescription in the set, a matching original was found. For the second, there was none. The prescription number corresponding to the second of the set bore a different date, patient name, drug type and
cost than that on the computer print-out. The second prescription in
the set was false.

The question of a podiatrist practicing outside his area of spe-
cialization had led to the possibility of Medicaid fraud by Revco, one
of the largest discount drug companies in the country. The Ohio Depart-
ment of Public Welfare had been reimbursing Revco for these false pre-
scriptions through the Medicaid program. In store records examined
at this point, the fraud was extensive. Revco had 159 stores in the
state. Were the false prescriptions the result of a conspiracy among
several of the individual Revco pharmacies? Or, was the fraud origi-
nating centrally, in the upper echelons of the corporate structure?

**Sneaking Up On A Corporation**

The pharmacy board felt the similarity of method could not have
indicated a conspiracy of employees at the store level; it would have
been unmanageable because of the numbers of people necessarily involved.
Instead, the board concluded that the fraud involved a centrally located
computer crime that involved a minimum number of people. They felt
this fraud was a statewide problem which would necessitate contacting a
group of stores, possibly with search warrants, to substantiate that the
fraud was centrally located, as opposed to a conspiracy among a group
of managers. The pharmacy board decided the case was bigger than they
were prepared to handle because of lack of manpower and lack of juris-
diction. The Ohio State Highway Patrol was brought into the case, with
the pharmacy board acting as a consultant.
The Ohio State Highway Patrol and pharmacy board met to determine how best to obtain evidence. Two problems were apparent: 1) awareness of the on-going investigation might precipitate destruction of evidence; therefore, every possible step must be taken to maintain secrecy, and 2) the evidence must be secured in a manner that would both prove fraud and prevent any procedural errors that might provide Revco a loophole.

On April 11, 1977, the Ohio State Highway Patrol asked the Economic Crime Unit of the Franklin County Prosecutor's Office to enter the case. This unit accepted the responsibility for preparing the case for trial, therefore assuming direction of the rest of the investigation. The entry of this organization marked the beginning of a new phase in the case: gathering the evidence for trial.

Confirming the Evidence. Meetings were held with the highway patrol and S/UR to brief the Economic Crime Unit (ECU) on what had already transpired in the case. In order to devise a strategy, the ECU still needed extensive information pertaining to the corporation itself and to the suspected fraud. In order to charge the corporation with fraud, it was necessary to prove that the organization had actually been reimbursed by the welfare department for the falsified prescriptions. In addition, intent had to be demonstrated. This required knowledge about where in the organization the false prescriptions were originating, who was doing it, how it was being done, and the full extent of the fraud. Because of the secrecy required, this knowledge had to be developed without access to the corporation itself. The ECU began gathering facts about Revco from other sources. They examined quarterly reports from
investment services, such as Moody's and Standard and Poor's, daily stock prices, annual reports, and reports filed with the Securities Exchange Commission. Through the ODPW, which had had contact with Revco as a provider since 1972, a picture of the company's internal structure began to unfold. The ECU met with ODPW's Division of Data Services to learn the welfare department's computer billing system for providers. From an understanding of the processing of Revco claims at ODPW, and previous communication between Revco and DDS, it was possible to reconstruct on paper the departments within Revco through which the claims were processed. (Figures 2,3,4 and 5).

The Ohio Department of Public Welfare was intensifying its investigation into the nature of the suspected fraud itself. Major questions needing resolution were: In how many of the 159 stores in the state were the falsified prescriptions found; and, were there other errors besides these transpositions? The Division of Data Services devised ten special computer programs to examine past claims paid to all Revco stores in the state. An inter-office memo, in April 1977, reported these preliminary findings:

This Bureau received and summarized a special computer report listing suspicious prescription numbers. We found that Revco Drug Stores, Inc., billing for 159 stores (100%) had used this same suspicious billing pattern for all stores. A peripheral concern is that Revco Drug Stores, Inc., of this state, bills centrally for 825 stores in 21 states. These 63,847 sets of suspicious prescription numbers represent a total cost to ODPW of $642,018.42 in historic payments.2

External corroboration of the suspected fraud came from a mailing originated by ODPW in December 1976, called "Explanation of Medicaid Benefits." This mailing goes monthly to each welfare recipient, listing
all prescriptions filled and Medicaid services rendered, and inviting questions and comments. Approximately 65 were returned by welfare recipients who indicated that they had not received all of the drugs listed as provided and paid for their benefit through Revco pharmacies.3

The ECU, in cooperation with S/UR and DDS of the Ohio Department of Public Welfare, examined the claims listings submitted by Revco through its billing tapes to the ODPW. These were compared with remittance statements and checks returned to Revco by the welfare department. Fifteen sets of claims containing fifteen fraudulent billings were traced through these documents. The analysis confirmed that Revco did receive payment on each of the fraudulent billings.4 This information convinced the ECU there was enough evidence to establish probable cause.

Evaluating Alternative Strategies. A strategy was needed for preserving and seizing the evidence. However, it was still unknown whether the false prescriptions were generated by individuals within the organization for personal gain or were based on an organization-wide plan. This unresolved issue made strategy development difficult. If individuals were doing it for personal gain, others in the organization would have to be in on it. There would have to be a connection between the computer department, where the prescriptions were falsified, and the accounting department, where the false prescriptions could be translated into personal profit.

If this were the case, the contemplated strategy was two-pronged. The first phase was to seize Revco's computer headquarters. The goal was to enter the corporation and retrieve the computer tapes before they could be destroyed. The ECU representatives would be accompanied by the
Ohio State Highway Patrol, the local sheriff, and computer experts. Minimal notice would be given to corporate officers so they would accompany the ECU representatives.

A second phase of the strategy was to seize prescriptions simultaneously from selected Revco pharmacies around the state. The stores would be geographically scattered and both rural and urban, to protect against a legal defense that the act was a conspiracy between stores, rather than at the corporate level. Search warrants would be used that specified sets of suspicious prescriptions. Though the unit did not expect to find the second in the set in the stores, based on the findings of the pharmacy board's earlier on-site visit, they wanted to seize a large number of prescriptions to verify that the situation existed in various areas around the state.

The alternative of seizing Revco's computer headquarters was discarded. There was major concern about a tip-off. The massiveness of the plan and difficulties of "surrounding an organization" could put the evidence in jeopardy. Furthermore, the type of computer hardware used by Revco was unknown. Therefore, selecting a computer expert to extract the evidence from the computer on short notice was difficult. The ECU decided to use the second phase of the strategy only, and seize the original prescriptions from selected stores. These could be verified against computer printouts, remittance receipts, and cancelled checks possessed by ODPW, as before. Securing this evidence then would provide a lever to gain access to the internal structure of the corporation itself, without the risk of destruction of evidence.
The Preparation. Five stores in four counties were selected as targets. The stores all did a high volume business with welfare recipients and had high overall sales. However, this strategy was problem-laden. One difficulty was whether to use subpoenas or search warrants to seize the evidence. Subpoenas would be cumbersome. Because of the multiple locations of the stores, subpoenas would necessitate use of grand juries and prosecutor's offices in each of the counties for separate indictments. The use of search warrants, instead, for each of the five stores meant all could be processed by a single grand jury in the county of the ECU. Because of this simplification and the greater likelihood of preserving the evidence, search warrants were decided upon.

The simultaneous execution of search warrants in five locations in four counties was unprecedented. Considerable planning and coordination were required. The ECU and the Ohio State Highway Patrol together mapped the execution of the warrants. They would be served in each pharmacy by a team composed of one highway patrol trooper, one representative of the local police, and one representative of the Ohio State Pharmacy Board. The local police representatives were included to cover any jurisdictional questions that might arise, and the pharmacy board members were included because of knowledge of store records.

The authority of the highway patrol to seize evidence outside state property could be questioned. To avoid giving Revco a technical defense, the search warrants were to be issued jointly in the names of the superintendent of the highway patrol and the sheriff of the local county.

The use of this joint warrant was merely one innovation. To accommodate this and others, a search warrant form had to be created to
replace the standard form, which was inadequate for this case. Two affidavits were necessary to insure proof of probable cause. The head of the Economic Crime Unit, who had investigated each document mentioned therein, prepared and signed the first affidavit. The second affidavit was a response to the warrants being served simultaneously in different counties. Multiple counties imply multiple courts. The warrants had to be issued by a court in the county in which they were served. The executing officers could not obtain a warrant based on hearsay evidence. Therefore, a one-day briefing session was held at the ECU for troopers from around the state who were participating. The evidence was viewed by and explained to the executing officers, who then could sign the prepared affidavit that they had personally reviewed the evidence. Because of the complexity of the case, extensive training was necessary. Any irregularity could mean a technical defense for Revco. The troopers were given a memo and instructions by an assistant prosecutor explaining the overall plan and the step-by-step procedure for executing the warrants. (Figure 6)

Prosecutors in each county were notified ahead of time. Confidentiality was stressed. Each county prosecutor's office advised which police agency in their area should be involved. Staff at ODPW, the highway patrol and the ECU worked overtime to prepare the warrants. The prescriptions to be seized had to be itemized. S/UR and DDS of the Ohio Department of Public Welfare had painstakingly drawn up lists of the sets of suspect prescriptions in each of the five stores. The numbers of the 2,492 prescriptions had to be accurately typed into the warrants. Revco's name was omitted from the warrants until the last possible minute to preserve secrecy.
The briefing session was held on April 27, 1976. Warrants were secured in each of the counties April 28th. April 29th was set as the day to seize the prescriptions from the 5 stores. Nearly a year had elapsed since the investigation first began.

"The Gotcha!"

On the morning of April 29th, a command post was set up between the ECU and the highway patrol to insure simultaneous execution of the warrants. Economic Crime Unit staff were on duty at their office as legal advisors to other prosecutors involved. A liaison highway patrol officer was also there. The highway patrol communication equipment was in readiness to keep in touch with the actual progress in serving the warrants. The teams were to be in radio contact with the command post at all times. Between 9:00 and 9:45 a.m., the search warrant teams entered the five Revco stores. Warrants were shown to the pharmacists on duty, the original prescriptions were seized, and inventory lists of those removed were left with the pharmacists. The original prescriptions were taken elsewhere and xeroxed. These xeroxed copies were then returned to the pharmacies to be available should customers need refills. The seizure of the prescriptions went without incident, except for the surprising appearance of the press, complete with photographers, at one of the pharmacies.

At the entry of the search warrant teams in the pharmacies, individual pharmacists notified Revco corporate headquarters about the seizures. Revco executives immediately contacted the Economic Crime Unit. They were advised of the content of the warrants and the location of the five
stores. When the execution of the warrants was completed, the ECU contacted Revco's chairman of the board. A meeting was scheduled for that same afternoon. At twelve noon, representatives of S/UR, the Ohio State Highway Patrol, and the ECU boarded a small plane and flew to meet at the law offices of the chairman of the board. As they left, headlines about the raids were already in the local papers.

Present at the meeting were the chairman of the board, the corporate legal counsel, and two attorney from the law firm representing the corporation. The purpose was to 1) inform the corporation of the evidence against them, 2) secure their cooperation during the remainder of the investigation, and 3) deliver a letter from the Ohio Department of Public Welfare informing Revco that payment on all claims would be suspended until completion of the investigation.

An ECU representative explained that the meeting was to be an informal discussion of the billing problems with the Ohio Department of Public Welfare and every effort would be made to avoid corporate disruption. Revco immediately requested no publicity and asked that the discussion not be quoted in the media. The request was granted.

A representative of the highway patrol explained the purpose of the seizure of prescriptions and their subsequent processing and cataloguing as evidence. A representative of S/UR explained the discovery of the problem, showing corporate officials computer printouts and detailed claims listings. The gathered corporate executives denied any knowledge of the falsified prescriptions. A representative of the ECU submitted a letter requesting Revco's cooperation in supplying the following information:
1. Weekly sales reports (R307-1) from the five stores for 1975-1976.

2. Description of their internal procedures, systems, including steps to process.

3. Computer programs for Medicaid.

4. Input tapes for five stores.

5. Source programs.

6. Employee records of the following:
   a. number of employees in data services;
   b. lines of authority and responsibilities;
   c. hours of access to computer;
   d. security measures;
   e. computer expertise.

7. Allow us to trace funds through the accounting system.

The letter of suspension of ODPW payments was accepted and a receipt signed. Revco agreed to cooperate in the continuing investigation. The successful execution of the search warrants had allowed the combined investigative units the sought-after tactical advantage.

Penetrating the Corporation

The Internal Investigation. On April, 1977, Revco stood as one of the leading retail drug chains in the country. Listed as one of Fortune's Top Five Hundred for 1976, at the time of the raids Revco was operating 825 stores in 21 states. During the ten years from 1968 to 1977, Revco sales had grown from $129.3 million to $658.3 million, an increase of 409.1%. On April 29th, the day the prescriptions were seized, 67,800 shares of Revco stock were traded on the New York Stock Exchange. The price per share at closing was 20 3/4. One week later, the number of shares traded was 616,900. The closing price was 16 3/4. (See Appendix C) The increased trade and drop in stock price were a
response to publicity about the case, not only in local papers, but in the Wall Street Journal. The ECU was plagued with calls from press representatives and financial analysts from all over the country. Concern about stock price, plus the suspension of all reimbursement for Medicaid claims by ODPW for the duration of the investigation, were additional incentives for Revco to cooperate.

Within a matter of days, Revco had called in an independent auditing firm to examine their records and assist in uncovering the billing problem. The chairman of the board responded in writing with the information requested by the Economic Crime Unit. The ECU began integrating this information with earlier data on Revco's computer billing system and internal organization. Meanwhile the highway patrol was recording and logging the evidence. S/UR and DDS continued their computer analysis of scope and types of fraud.

On May 11th, representatives of the ECU, S/UR, Division of Data Services, and the state auditor's office met at highway patrol headquarters to discuss potential recovery of funds owed the state by Revco. More importantly, the meeting was to clarify the future role of each organization. The auditor's office, normally responsible for audit procedures related to money owed the state, declined to participate. S/UR assumed total responsibility for quantification of the loss. The county prosecutor would continue to actively pursue the criminal aspects of the case. The highway patrol would aid the prosecutor's office in accumulating evidence. The pharmacy board would concern itself with professional and ethical considerations.
On May 13th, a meeting was held at Revco corporate headquarters. Present were representatives of the ECU, the highway patrol, a computer expert from ODPW, the independent auditing firm, and corporate officials. At this meeting, Revco officers stated that they had been conducting an internal investigation regarding the false claims. The parties responsible had been identified. Revco delivered a Table of Organization and the names of staff in suspect positions to the patrol. Two troopers spent the next few days conducting interviews with employees of the corporation, current and past. The interviews yielded an explanation of the false billings.

The Corporate Explanation. In the spring of 1975, corporate headquarters had moved to a new location. In the subsequent reorganization of departments, boxes of Medicaid claims were found. These claims, dating from 1973 to the then current date, had been submitted to ODPW for processing and reimbursement. However, the claims had been rejected by the ODPW computer edits (special programs for prepayment screening of claims). The prepayment editing system screens claims for "errors" such as claims not in numeric order, a charge of less than 10 cents, date prescribed later than date dispensed, ADC number not listed, and so forth. When rejected, reimbursement is withheld until the error in the claim is corrected and successfully resubmitted. The manual examination necessary to correct and resubmit Revco's claims had not been done. The prescriptions that the claims represented had been given to Medicaid recipients by Revco pharmacists. Hence, the boxes of rejected Medicaid claims signified outstanding accounts receivable. Over 50,000 claims
had been rejected by welfare department computers, representing over a quarter of a million dollars in accounts receivable.

Two Revco executives were confronted with the responsibility for this "business problem." A vice-president of Professional Services and the Pre-paid Prescription Program manager under his supervision embarked on a plan to bring the company's accounts receivable back into balance. To examine each claim individually and legitimately correct the errors would demand personnel and time. The cost of correction would exceed the value of the claim. Therefore, a temporary staff of 6 clerical people was hired specifically to work closely with the Pre-paid Prescription Program manager and an assistant. Their sole responsibility was to alter the rejected claims so they would be acceptable to the ODPW computer.

The vice-president and the manager possessed particular skills that enabled them to direct this project with minimal risk of being detected by the ODPW computer system. The manager had formerly been director of the Revco's computer system, and was knowledgeable about not only Revco's own system but the welfare department computer billing and edit system as well. The vice-president was a licensed pharmacist, knowledgeable about drugs and dosages.

New claims were fabricated, rather than corrected following proper procedure for resubmission to the state. Clerical workers at corporate headquarters were instructed to manually re-write daily claim forms in numbers equivalent to the rejected claims, using "model claims" which had already been accepted by the state and paid. Dates were changed, and the last three digits of the six digit prescription numbers were
transposed. All other information from the model claim remained the same. No attempt was made to alter amounts of the individual claims. The two executives believed that because of the large number of claims involved, the amounts would average out. When the backlog of rejected claims had been re-written, the temporary help were terminated. The plan devised in March, 1975 was completed by December, 1976.

The two executives accepted total responsibility for the falsified claims, stating that their actions had been without the knowledge of any other persons employed by Revco. The state troopers interviewed the two executives and the clerical help. All confirmed the story. Each interviewee was asked before and after the interviews whether he would be willing to take lie detector tests. Each expressed readiness to do so. However, no lie detector tests were given.

Internal Investigation by Computer. Computer specialists at the Ohio Department of Public Welfare were working in cooperation with Revco and with Revco's independent auditing firm. Intensive auditing of Revco's computer billing system was being done by both ODPW's Division of Data Services and the independent auditing firm. Both were endeavoring to quantify the Medicaid prescription claims in question and to determine the amount owed the state. ODPW supplied the auditing firm with programs they had run so that the firm might do a similar analysis through Revco's own computer center. Many meetings were held between computer experts of all three of these organizations. Indeed, efforts went beyond loss quantification. ODPW and Revco were also trying to build a better interface between the two systems. Hence, the purpose was two-fold: correction and prevention.
On June 8, 1977, DDS and S/UR agreed on a plan to aid in recovery of money owed the state by Revco. Ten special computer programs were devised to extract errors and quantify the loss. A system of stratifying claims to isolate various types or categories of errors was developed. The complexity of the plan is indicated by the listing of precautionary steps accompanying implementation of the system:

1. Each step requires (sic) that the input be read in a different sequence.

2. As each succession stratification (type of overpayment) was extracted, it was copied to one tape file and those remaining claims copied to another file.

3. The latter was used as the input to the next step to ensure that a claim record would not be selected for more than one error group.

4. Each step, in addition to writing the two tape files, printed a report of the claims paid in error and the momentarily "valid" claim which conflicted with each, a count of the claims paid in error and the dollar amount of those claims." (14)

This stratified extraction reviewed all Revco claims for the period September 1, 1972 through March 31, 1977. Improper billings were discovered in ten different categories. (Figure 7) The disputed claims divided into two major categories: falsifications and pre-submission changes. Falsifications involved the claims actually rejected by the welfare department's computer for such reasons as recipient ineligibility or incomplete or incorrect data. These were the claims manually re-written and resubmitted by the temporary help.

The second category, pre-submission changes, were claims rejected by Revco's own computer system as improper. As a direct entry Medicaid provider, Revco records its billing data on computer tape, then forwards
that tape to ODPW. The claims first are screened by an internal Revco edit system that will reject claims because information such as the name of the drug, the physician, or the recipient's I.D. number was missing. In other cases, the drug may not have been a covered medication, or the quantity dispensed was missing or incorrect. The investigation disclosed that workers at corporate headquarters were told to "doctor up" claims rejected by the company computer.

The welfare department's examination of falsifications and pre-submission changes for the 159 Revco pharmacies in the state revealed 208,539 disputed claims. These preliminary findings were shared with the independent auditing firm and Revco computer experts on June 22, 1977. The disputed claims, for which Revco owed the state, totaled $521,521.12.

The investigation by the independent auditing firm called in by Revco disclosed an additional finding. Billings to Medicaid programs and private medical coverage plans in other states in which Revco operates also were improperly altered before being submitted for payment. This discovery of pre-submission changes in other states expanded the scope of the investigation. The Economic Crime Unit advised similar units in other states where Revco stores existed of the investigation. The Bureau of Surveillance and Utilization Review also notified the HEW regional office of the investigation and detailed the preliminary findings. These agencies outside the state were kept informed throughout the course of the investigation.

The combined efforts of the Economic Crime Unit, the Ohio State Highway Patrol, the Ohio State Pharmacy Board and the Ohio Department of Public Welfare had uncovered the largest case of Medicaid provider fraud in the
state's history. Revco, the now admitted offender, was simultaneously one of the largest retail drug chains in the state and in the nation. The disposition of the case promised to be as dramatic and complex as its discovery and investigation.

The Disposition of the Case

Social, Economic and Political Influences. As the case moved into the final stages, the Economic Crime Unit and Revco became the focal organizations. However, the final outcome cannot be understood by examination of the interaction of these two organizations alone. A number of environmental factors impinged upon the participant organizations, influencing them to resolve the case through a negotiated plea rather than a trial.

Though the Ohio Department of Public Welfare did not participate in the plea negotiations, this organization played an interesting role. The Ohio Department of Public Welfare itself has the power to impose sanctions. Individual Medicaid providers sign a contractual agreement with the state. These provider agreements may be cancelled by either party. Cancellation of the provider agreement results in termination of the provider's participation in the Medicaid program, and consequently Medicaid payment is not given for services rendered after the effective date of the termination.18 Termination may be invoked for several reasons, one of them being:

"The provider has been convicted in a court of law for fraudulent billing practices or for negligent practice resulting in the death or injury of his patients."19
The issue of termination of Revco's Medicaid provider agreement was discussed jointly by the Economic Crime Unit and top executives and legal counsel or the Ohio Department of Public Welfare prior to negotiation of the plea. Revco's annual Medicaid prescription sales in the state at the time amounted to approximately $2 million, which represented about 2% of the company's annual total sales within the state. Imposition of the termination sanction meant a potential loss of this amount annually to Revco.

However, also to be considered in the termination decision were the thousands of Medicaid recipients who relied on Revco stores around the state daily for prescriptions and service. Should Revco's provider agreement be terminated, those recipients would be forced to do business with another pharmacy. Such a transfer would be in many cases, an inconvenience, and in others, a hardship.

The decision was eventually made to retain Revco as a Medicaid provider. This final decision was exclusively that of the director of the Ohio Department of Public Welfare. However, the announcement of it was left pending till the plea bargain was settled. This postponement presented a tactical advantage to both ODPW and the Economic Crime Unit. The absence of any public statement concerning termination left Revco uncertain about their future as a provider. Thus, the potential application of this sanction was available for subtle use by the ECU to ensure cooperation in the plea bargain, and by ODPW to guarantee exchange of information with Revco and the independent auditing firm.

As negotiations began, Revco was under pressure for early settlement. The price of Revco's stock on the New York Stock Exchange had rapidly
fallen at the time of the April raids. The stock price had continued
to vacillate since then, with volume of trading for a given week at times
jumping to ten times the historic average for Revco. (See Appendix C)
Concern of major shareholders had been personally conveyed to members
of the board of directors and other company officials. The fiscal year
had ended May 31, 1977, and corporate officials expressed a wish to have
the case settled as soon as possible—in time for their annual stock-
holder's meeting, scheduled for early September.

In addition, there was convincing evidence against Revco. A trial
would mean continued unpredictability in the stockmarket, and further
bad publicity, not to mention cost in terms of company personnel involve-
ment and legal fees. Corporate officials wanted to return to routine
business activities, without the interruptions caused by the investigation.
Internally, morale was low. The accused executives were long-time, re-
spected employees of the firm, and such events as sudden raids, headlines
and state troopers interviewing in corporate headquarters had a profound
impact on all employees.21

Moreover, the welfare department had suspended payment for Revco
prescriptions to Medicaid recipients for the duration of the investigation.
Revco, attempting to be cooperative and, not wishing to lose customers,
had continued to serve these Medicaid recipients. This back-log of un-
paid billings was estimated to be $500,000.22 Conclusion of the investi-
gation, no matter what the outcome, meant reimbursement for these claims.

The prosecutor's office, too, was interested in early settlement.
The size of the corporation and amount and scope of the fraud had created
national interest in the case. Financial analysts from all over the
country repeatedly called for information which could be used to advise existing and potential stockholders. The knowledge of impact on the market had resulted in exercise of extreme caution in all public utterances during the case. Only in rare instances were statements issued to the press. Swift and quiet resolution was seen as beneficial to the general public.

Further, should the case go to trial, it would be lengthy. Jury selection for such a complex case must be done with care and would be time-consuming. Despite the amount of evidence, proving such an involved case to a jury would be difficult. Moreover, there was some concern about the evidence standing up in court. The five stores selected for the prescription seizures were not randomly chosen. Much of the later computer work was based on findings in these five stores, which may not have been generalizable. The stratified sampling process used by the welfare department to quantify the loss was non-random, but extracted claims on the basis of certain error types. The error types were based on the assumption that the first prescription in the set was good. It may have been the first one was bad and the subsequent prescriptions good, followed by refills. Pre-dating may have occurred instead of post-dating. In short, there may have been valid claims included in the sample. The Ohio Department of Public Welfare was confronted by the problem of cost in tracking errors as Revco was originally which caused them to resort to falsification rather than correction. Further, there was a time constraint due to the impending Revco stockholders' meeting.23

These facts made computer quantification of the false billings the most logical choice. The case would of necessity rest upon the expert
testimony of computer specialists. There would be many exhibits. Medicaid recipients would have to be called in to verify claims billed to them. A trial would cost the county thousands of dollars.

The late entry of the state attorney general's office in the case may have been another environmental factor increasing pressure on both Revco and the Economic Crime Unit for an early settlement. Prior to the Revco case, the ODPW had established a pattern of referring Medicaid provider fraud cases needing legal action to the attorney general's office. They would then bring a civil suit against providers under the Federal False Claims Act of 1893. However, in this case, the highway patrol had been brought into the case by the pharmacy board. Without consulting with the welfare department, the highway patrol referred the case to the Economic Crime Unit of the county prosecutor's office because they had the authority to criminally prosecute. The attorney general's office was without criminal prosecution powers.

However, as plea negotiation was about to begin, the attorney general's office initiated several meetings with Revco officials. Though the attorney general's office had no jurisdiction in the case unless it was referred to them by ODPW, Revco shared information with them through the independent auditing firm, and the chairman of the board and company president both traveled to the attorney general's office to discuss the case. Interviews and meeting notes confirmed corporate officials were concerned about the possibility of civil suit as well as the on-going criminal prosecution.

As for the Economic Crime Unit, the attempted entry of the attorney general's office into the case may have created pressure of a political
nature. The county prosecutor was involved in a campaign for the office of state attorney general, running against the incumbent. The Revco case was the biggest case of Medicaid provider fraud that had occurred in the state. It was receiving national publicity. Whichever organization was responsible for its successful resolution would receive good press and potential political rewards.

The Dilemmas of the Prosecution. Not only were there concerns of a social, economic and political nature, but for the prosecution the substantive difficulties of prosecuting a multi-million dollar corporation were enormous. The complexity of the offender and the crime forced the prosecutor's office to confront a number of problems for which few precedents existed. Decisions, ordinarily taken-for-granted, in the Revco case became problematic. Questions needing immediate resolution were:

1. Who should be named in the charge
2. The nature of the charge
3. The number of counts
4. The form the charge should take

The first question to be resolved was who should be charged with the crime. The false billings had been submitted in the name of the corporation, and ODPW had reimbursed that corporation. Yet, the falsifications had been the actual handiwork of two executives and some temporary clerks hired for the job. According to state trooper interviews, the executives derived no personal gain from the fraud. Instead, the company benefited. Should the executives be charged, or the corporation? And if it were the corporation, was it the state subsidiary or the parent corporation, located in another state, that should be charged?

The state criminal code contains statutes allowing charges to be brought against both the corporation and the two executives involved.
The applicable sections were created to eliminate the possibility that individuals as well as corporations might use the corporate structure as a shield from liability for corporate acts. Section 2901.23 (A) (4) ORC (organizational criminal liability) states an organization may be convicted of an offense under several circumstances, one of which is:

"If acting with the kind of culpability otherwise required for the commission of the offense, its commission was authorized, requested, commanded, tolerated, or performed by the board of directors, trustees, partners, or by a high managerial officer, agent or employee acting in behalf of the organization and within the scope of his office or employment."

The lack of a suitable penalty, often a stumbling block to organizational criminal liability, is remedied by the provision of special penalties applicable to organizations for every offense.

The question of whether to charge the state subsidiary or the parent corporation was resolved by closer examination of corporate structure. Though billing occurred through corporate offices in the state in question, responsibility rested with the parent corporation in another state. Also, the executives involved were officers of the parent corporation, not the state subsidiary. Therefore, it was the parent corporation that was to be charged.

Charges could be brought against the two executives through Section 2901.24 ORC (personal accountability for organizational conduct) which states:

"An officer, agent or employee of an organization... may be prosecuted for an offense committed by such organization, if he acts with the kind of culpability required for the commission of the offense, and... (l) in the name of the organization or in its behalf, he engages in conduct constituting the offense, or causes another to engage in such conduct, or tolerates such conduct when it is of a type for which he has direct responsibility."
Under this section, a person is subject to the same penalties as if he had acted in his own behalf.

A second question to be resolved pertained to the nature of the charge. Of major importance in this decision was the issue of felony versus misdemeanor. Within each of these two categories, the state criminal code further distinguishes criminal acts as first, second, third, or fourth degree, according to their perceived seriousness. Penalties, then, vary not only by felony and misdemeanor, but by degree. Hence, there was a profusion of potential charges to be considered. Further, over half a million dollars were owed the Ohio Department of Public Welfare. In addition to whatever penalty might be imposed, restitution was a priority.

The determination of the actual charge was delimited at the outset by the statutes themselves. Either they did not offer an accurate description of the act, or the penalties were inadequate. For example, the charges considered were: theft by deception, ORC 2913.02 (A) (3); falsification, ORC 2921.13; engaging in organized crime, ORC 2923.04; tampering with records, ORC 2913.42.

Engaging in organized crime, a first degree felony, was inapplicable because it called for "five or more persons collaborating to promote or engage in" the listed offenses, including theft, on a continuing basis. In the Revco case, only two individuals were involved. Tampering with records, a first degree misdemeanor, did not offer an accurate description of the offense in this case. Theft by deception, the statute most commonly invoked in the state for cases of this type, did not offer penalties that corresponded to the seriousness of Revco's crime. According to this
statute, if the value of the property or services stolen is less than $150, violation is petty theft, a first degree misdemeanor. If the value is $150 or more, violation is grand theft, a fourth degree felony.

However, subsequent court interpretation of this section of the code stated that in a series of theft offenses, all of the amounts must be aggregated and tried as a single theft offense. Thus, prosecutors were limited to prosecuting for a single count of grand theft, regardless of amount stolen or manner in which it was stolen. In the Revco case, though each false prescription was a misdemeanor, the Economic Crime Unit would have to aggregate them and charge one count of grand theft. The theft of $521,521.12 from the welfare department would result in a $2,500 fine and a potential jail term of 6 months to 5 years. The same sentence could be imposed if the offender had stolen 10 hubcaps valued at $15.00 each. From the perspective of the prosecution, this was an inadequate penalty, even though theft by deception would permit a felony charge.

The statute which seemed most applicable was falsification (ORC 2921.13):

"(A) No person shall knowingly make a false statement, or knowingly swear or affirm the truth of a false statement previously made, when any of the following apply... (4) the statement is made with purpose to secure the payment of workman's compensation, unemployment compensation, aid for the aged, aid for the blind, aid for the permanently and totally disabled, aid to dependent children, general relief, retirement benefits, or other benefits administered by a governmental agency or paid out of a public treasury."

Falsification is a first degree misdemeanor. The organizational penalty, per count, is $5,000; for individual liability, $1,000. However, restitution remained a problem. The court could only order restitution...
if an offender was given probation. For a corporation the size of Revco to receive probation in an offense of this magnitude was an unsatisfactory way of retrieving the money, from the standpoint of the prosecutor's office. Thus, restitution was to become a major goal in the plea negotiations.

The third dilemma confronting the Economic Crime Unit was the number of counts to be included in the charge. There were 208,539 disputed prescription claims. The claims had been submitted for payment in tape form, each tape being given a reel number. Reimbursement was made on the basis of these reels, rather than individual prescriptions. The issue was two-fold. First, should claims or reels be entered as counts, and second, how many should be included? In a case of this nature, where there are vast numbers of offenses repeated over time, accuracy of number of counts in the charge is not necessary. An indication of the extent of the violation is considered sufficient. Therefore, reels were chosen to represent counts, for the simplification this afforded. The number of counts to be included would be determined in the negotiations with Revco.

The fourth question was what form the statement of the charge should take. This could be either a grand jury indictment or a bill of information containing a precise statement of the charges filed by the prosecutor. Again, from the prosecutor's viewpoint, an information would be simpler. There would be less publicity, less cost, and the problems of proving the case to a grand jury would be avoided. In general, resolution could be more quickly accomplished. Though the ECU would gain
advantage with a bill of information, there were additional gains to be made by entering negotiations with Revco with this issue apparently unresolved.

The Negotiated Plea. Formal meetings to discuss a plea began June 29, 1977 and continued for a month. The charges against the corporation and the two executives were negotiated simultaneously. Representing Revco were the president, legal counsel and the chairman of the board of directors. A local attorney, hired by the corporation because of his expertise and geographic proximity to the investigation, was involved. Neither of the corporate officers who had admitted responsibility for the falsified billings took part. However, a prominent attorney with a reputation as one of the finest criminal defense lawyers in the country participated as the representative for the accused vice-president. Four attorneys represented the prosecutor's office.

At issue was the determination of the formal charge and sanction.

Revco agreed to waive its right to presentation of the matter to the grand jury and proceed by way of information. This was a mutual agreement, to the benefit of both organizations. For Revco, concerned about the impending stockholders' meeting and the market, an indictment meant a delay of two or three months while the case moved through the regular calendar. A bill of information meant a hearing within ten days of filing. In addition, newspapers report indictments with much greater vigor than bills of information. The ramifications of negative publicity on the market were again brought home to Revco during the negotiations. On July 7th, there was an imbalance in trading of Revco stock on the New York Stock Exchange that halted trading of the issue.
Speed of resolution and restoration of a positive public image were foremost for Revco.\textsuperscript{28}

The ECU indicated to Revco that there were two possible charges: theft by deception, a fourth degree felony, and falsification, a first degree misdemeanor. Revco preferred the misdemeanor charge for two reasons. A felony charge meant the possibility of licensing suspension by pharmacy boards in several states. And, a charge of falsification would be less publicly stigmatizing than a charge of fraud. Because of its greater penalty impact, the misdemeanor offense was acceptable to the ECU, in the absence of a more appropriate statute. For organizational criminal liability, the maximum penalty for a misdemeanor of the first degree was $5,000. The number of counts had yet to be determined. The ECU proposed 20 counts of falsification, which would amount to a penalty fine of $100,000.

Also in question was the issue of cost of prosecution. Because of the great expense incurred by the several organizations investigating the case, the prosecutor's office hoped to include the cost of prosecution in the settlement. The Bureau of Surveillance and Utilization Review and Division of Data Services of the welfare department had been keeping record of their costs for some time, at the request of the Economic Crime Unit. Revco offered to pay costs, but with a compensating reduction in penalty fine. That is, if the total amount of the penalty were $100,000, $50,000 would be credited as cost of prosecution and $50,000 as fine. For Revco, cost of prosecution would be tax deductible. A corporate fine would not.
The Economic Crime Unit favored Revco's paying costs of prosecution in addition to whatever fine would be imposed. However, legal research as to the appropriateness of including cost of prosecution as a part of a negotiated plea in a criminal case showed no precedent for its inclusion. Though in a civil case, cost of prosecution is a common factor in settlement, in a criminal case it is not.

Ultimately, the negotiations were concluded with an agreement that encompassed the following major elements: Revco would enter a plea of no contest to 10 counts of falsification, a misdemeanor of the first degree. The prosecution would recommend imposition of the maximum fine of $5,000 per count and this was agreed to by Revco in consideration for proceeding by way of information. In addition, Revco would make restitution in amount of $521,521.12 to the Ohio Department of Public Welfare. This amount was confirmed in the Final Report of Examination by the welfare department, and presented to the Revco board of directors, with the recommendation of the independent auditing firm that they accept it.

As for the two executives, each would plead no contest to two counts of falsification. The prosecution would recommend imposition of the maximum fine for a first degree misdemeanor provided by the statute defining personal accountability for organizational conduct, that being $1,000 for each of two counts. The charges involved also carried a possible six-month jail sentence per count. However, because the two executives obtained no personal enrichment through their conduct, the prosecutor's office agreed to make no recommendation as to restitution or incarceration.
The prosecutor's office drafted written negotiated plea agreements. Seldom are they written. Usually the prosecution tells the court the facts in an informal way. However, due to the size and importance of this case an explicit written agreement was preferable to avoid misunderstanding. The administrative judge to hear the bill of information was briefed ahead of time, for clarification.

On July 28, 1977 representatives of the prosecutor's office gathered in the County Court of Common Pleas. The Revco vice-president and the Pre-paid Prescription Program Manager were present, each accompanied by his attorney. No other corporate officers were present. Revco itself was represented by an attorney. Reading of the information in open court was waived. The counsel for the state and counsels for the defendants placed upon the record the negotiated plea agreement encompassing all agreements between the parties. The defendants, in writing, entered their pleas of "no contest" to charges of falsification, as agreed. The counsel for the state presented the court the facts of the case. The court found the defendants guilty of each count, as charged. They were sentenced according to the negotiated plea agreement. That same afternoon, Revco turned over checks of $521,521.12 and $50,000 to the Ohio Department of Public Welfare and the prosecutor's office, respectively. The two executives each rendered payments of $2,000 to the state. No press representatives were present.

The largest case of Medicaid provider fraud in the state was officially closed. However, the repercussions were to impact the several organizations involved for some time to come. The final settlement became the center of a political controversy. Ultimately this evoked
legislation which not only created harsher penalties for Medicaid pro-
vider fraud, but bestowed criminal prosecution powers on the state at-
torney general's office. 30

Questions linger which may never be resolved. Is it possible that
there could be $500,000 outstanding accounts receivable and the corporate
hierarchy not be aware of the fact? Is it possible six clerical help
could be added in one department and their presence not be questioned?
And why would Revco go to the expense of hiring six temporary clerks
to rewrite claims? Was this actually any less costly than legitimate
correction would have been? The Revco vice-president who early in the
case called the pharmacy board to urge analysis of store records regarding
the podiatrist was the same vice-president who devised the false billing
scheme. Knowing there were prescription claims which were not authen-
tic, why should he have encouraged any investigation?

These questions all relate to the facts of the case. However, in
addition to presenting a challenge to law enforcement, the Revco case
also raises questions for the sociologist. The case is unique, yet in-
dicative of a serious and changing trend in the nature of criminality
of our society. Where once both criminal and victim were individuals,
in this case both roles are played by complex organizations, and the
definition of who is criminal and who is victim is not so clear. Fur-
ther, the intricacies of crime at the organizational level are deepened
by the use of computer technology, both in the commission and the investi-
gation of the fraudulent act. The complexities are such that were it
not for a serendipitous series of events, the fraud of this provider
would not have been discovered at all. Moreover, the impenetrability of
the crime necessitated the involvement of not just one but multiple organizations in the discovery, investigation and prosecution of this case. In the absence of any formal mechanism to deal with this new type of crime, an organizational network emerged, composed of previously existing, separate organizations. Each of these possessed specialized skills and knowledge that made them indispensable to the network. The next chapter will discuss what is known about the crime of organizations and what questions this case should raise for the sociologist.
FOOTNOTES


4. Ibid., page 4.

5. Interview, Assistant Prosecutor, Economic Crime Unit, Franklin County, June 1, 1978.

6. "The 'Gotcha,'" is prosecutorial slang which refers to the stage in a case when the evidence is in the possession of a law enforcement agency and the alleged criminal is confronted with it.


8. Ibid., page 2.


16. Ibid., page 2.


19. Ibid., Sec. 106.2.


22. Interview, Division of Data Services, Ohio Department of Public Welfare, June, 1978.

23. The Ohio Department of Public Welfare acknowledged these difficulties in their preliminary report. In regard to their method, they stated:

"It is recognized that such a method will not recover all claims that are in error. Indeed, it is conceivable, moreover likely, that not all of the error types have even been identified."

"Similarly, it is conceivable that, for a number of reasons, a valid claim may have been extracted as an invalid claim. It is economically infeasible, however, to eliminate the factor of human error, either clerical or interpretive, from this study. It must be noted at this point, in contrast, that the elimination of such errors is entirely possible and that ODPW is fully prepared to do so to the limits of legal and scientific infallibility."


25. State versus Schneider, Case number 77AP-662, (1977 Decisions, page 4914), unrecorded decision of Franklin County Court of Appeals.

26. Ohio Revised Code Section 2951.02 (B) (9); (C).

27. Interviews, Economic Crime Unit, June 1, 1978; June 10, 1978.


Sociological interest in white-collar crime can be bracketed into two distinct periods. These periods are distinguished from each other not only by time, but by focus. The initial period, from 1940 to the early 1960's, has been called the 'classic' core of white-collar crime investigation. This classic period was followed by nearly a ten-year hiatus, during which inquiry was practically abandoned. In the seventies, interest has revived. Not only have scholars reassessed the classic work, but contributions have been made to the field through research advances and development of a more sophisticated theoretical framework. A sociology of organizational crime is developing. This chapter will trace developments in conceptualization, theoretical approaches and research through the classic period to the present. The discussion will conclude with the contribution of this research to a sociology of organizational crime.

The Classic Period of Inquiry

Conceptualization: First indications of the emergence of a new concept in criminology appeared in the writings of E.A. Ross in the early 1900's. In no uncertain terms, he castigated a class of individuals
who perpetrated new sins, for which no public outrage resulted.

Called "criminaloids," Ross stated:

"... they are guilty in the eyes of the law; but since they are not culpable in the eyes of the public and in their own eyes, their spiritual attitude is not that of the criminal. The lawmaker may make their misdeeds crimes, but, so long as morality stands stock-still in the old tracks, they escape both punishment and ignominy. Unlike their low-browed cousins, they occupy the cabin rather than the steerage of society. Relentless pursuit hems in the criminals, narrows their range of success, denies them influence. The criminaloids, on the other hand, encounter but feeble opposition, and, since their practices are often more lucrative than the authentic crimes, they distance their more scrupulous rivals in business and politics and reap an uncommon worldly prosperity."³

Ross's initial pronouncement was made at a time when criminology was immersed in crimes more visible to society, such as homicide, assault, and robbery. While journalists repeatedly were exposing the illegal acts of supposedly respectable businessmen and politicians, Ross's attack remained an isolated statement for nearly three decades in sociology. Not until Edwin H. Sutherland labeled Ross's "new sins" as "white-collar crimes" in 1939 did discussion of the phenomenon begin to appear frequently in the literature of American criminology.

Sutherland's 1939 presidential address to the American Sociological Association was the first systematic attempt to define the concept of white-collar crime. He introduced it as:

"... a crime committed by a person of respectability and high social status in the course of his occupation."⁴

He argued that inclusion of white-collar crime as a topic for study by criminologists was not only justifiable, but overdue. He pointed out that the usual statistical reports represented the criminal population as largely lower-class, economically underprivileged persons. This
created a false impression of non-criminality on the part of the upper classes, who for personal gain, frequently violated codes and laws intended to regulate business activities. Since in all cases violation of the law is involved, Sutherland reasoned the traditional subject matter of criminology be expanded to include white-collar crime. Both his stance that "white-collar crime is real crime" and his conceptual definition sparked controversies.

Tappan objected to Sutherland's suggestion that white-collar crime be included in the field of criminology. He argued that crime must be restricted to a violation of the criminal law, which is subsequently punished by the state as a felony or misdemeanor. Hence, white-collar crime, which often includes acts not adjudicated as crimes by courts, should not be included in criminology. Burgess similarly argued that a distinction should be made between offenses that arouse strong public disapproval and those that result in little or no moral indignation. He objected to Sutherland's proposal on the principle that behavior without accompanying social condemnation should not be considered as crime.

Sutherland defended his position in his later study of violations of law on the part of seventy major American corporations. He stated these violations were "crime" because:

1. they were recognized as injurious to the public;
2. there were appropriate legal sanctions prescribed as penalties for the violation; and
3. the behavior involved in the violations was generally willful and intentional.
Despite these early criticisms of expansion of the concept of crime beyond the criminal law, Sutherland's statements had considerable appeal and stimulated attempts at conceptual refinement. The primary issue was Sutherland's emphasis on upperclass individuals as offenders.

Clinard suggested a more appropriate focus would be on the illegal activity of occupational groups. In his study of the black market, Clinard defined white-collar crime as "a violation of the law committed primarily by groups such as businessmen, professional men, and politicians in connection with their occupations."¹⁰

Hartung defined white-collar crime as an activity of either a firm or its agents. Hartung was the first to note that an organization, per se, could engage in illegal behavior, in addition to its individual members. His definition of white-collar crime was "a violation of law regulating business, which is committed for a firm by the firm or its agents in the conduct of its business."¹¹ Neither Hartung nor Clinard supported Sutherland's emphasis on the individual as actor.

Newman's interpretation was that the violator's occupational role should be the critical element, as opposed to the social class of the offender or the type of law violation.¹² By focusing on occupational role, Newman broadened the concept to include what are usually considered blue-collar workers. Thus, "... farmers, repairmen, and others in essentially non-white-collar occupations could, through such illegalities as watering milk for public consumption, making unnecessary 'repairs' on television sets, and so forth, be classified as white-collar violators."¹³
Quinney's objection to the Sutherland formulation of white-collar crime was that it covered a diverse and inconsistent range of behaviors. He criticized the definition for lack of clarity concerning "1) the importance of the social status of the offender, 2) the exact meaning of occupational activity, and 3) the possibility of including deviant behaviors which are not strictly legal violations." Supporting Newman, Quinney suggested the utility of the concept would be increased by expansion to include all violations that occur in the course of occupational activity, regardless of offender's social status. Indeed, he favored changing the term to "occupational crime." In addition, Quinney argued that the study of occupational crime would benefit further by examination of any deviations in occupational activity, be they criminal or not. However, Clinard criticized Quinney, suggesting that use of occupational crime instead of white-collar crime still would not provide a total remedy; it would not include all violations of law by white-collar persons, such as income tax evasion and rent-control violations, unless they occurred in connection with the violator's occupational role.

A number of classification schemes were developed during this period to increase conceptual clarity. Bloch and Geis divided occupational crime into categories by nature of the occupation. They devised three categories: 1) those crimes committed by relatively independent individuals and professionals, such as doctors and lawyers; 2) those committed by employees against corporations (for example, embezzlement); and 3) those committed by policy-making officials of corporations (price-fixing, misrepresentation). Geis more recently recommended that white-
collar crimes be grouped into homogeneous units to facilitate analysis, and suggested the concept of white-collar crime be restricted to "corporate violations." 18

Attempts at conceptual clarification also have been directed at specific types of white-collar crime. Cressey’s classification scheme illustrates this. He dealt with embezzlement as one common form of white-collar crime. Within this category, he identified three types of offenders: 1) independent businessmen, 2) long-term violators, and 3) absconders. 19

As can be seen, conceptual development during the classical period of inquiry received much attention. There was general agreement that Sutherland’s contribution was remarkable. However, his definition was inherently ambiguous and inhibited rather than facilitated research. In addition, by emphasizing the characteristics of the individual offender, Sutherland’s definition turned attention away from the organization itself. Though attempts to refine his concept of white-collar crime were many and varied, no single solution to the problem brought consensus within the discipline.

Theoretical Perspectives. Sutherland’s introduction of the concept was accompanied by presentation of a theoretical framework intended to encompass not merely the crimes of the upper class, but all crimes, regardless of class. 20 He argued against special theories to explain special types of crime. The social and personal pathologies that had been the mainstay of conventional criminological theory could obviously not explain the crimes of the upper class. What was needed was a single explanation that could account for all types of crime.
He suggested that crime is a learned behavior, the result of a process of differential association. The behavior is learned in interaction with others who define it as favorable. People commit crimes because they have acquired an excess of definitions favorable to violation of the law over definitions unfavorable to violation of the law. In addition to techniques, motives for committing crime also are learned.

Sutherland's differential association perspective was evaluated by Clinard and Cressey. Clinard, in his study of the black market, found most violations appeared to be rooted in learned behavior. However, differential association could not explain why some individuals who are familiar with the techniques of violation and interact with others, also familiar with techniques of violation, do not engage in such practices. Further, Clinard pointed out that Sutherland neglected to take into account earlier interactions, the variety of roles played by the individual, or the independent invention of a complex violation technique. In fact, Clinard's data compelled him to reject all of the following traditional explanations:

1. Individual differences in biological or psychological characteristics like feeble-mindedness or psychopathy, and in environmental misfortunes such as poverty, upset homes, or lack of education;

2. Situational factors of the differential economic pressures of possible profits with limited supplies;

3. Situational factors involving the size and reputation of the business establishment involved; that is, there appeared to be no clear difference between large and small places, or between the well-established and the clearly more marginal;
4. The situational factor of differential association, either
   a. with a criminal element or involvement in underworld activities and traffic, or
   b. with other businessmen especially involved in wartime violations as a matter of everyday living.21

As an alternative, Clinard proposed investigation of the individual's personality pattern:

"There may be psychogenic characteristics, general reaction patterns such as disregard for the rights of society in general, or basic attitudes such as attitudes toward law and the importance of reputation which were developed in the early years of life. These may be the result of the different integration of the several roles which each individual plays in society."22

Cressey's criticism of differential association was, like Clinard's, grounded in research. He found in his study of embezzlers that contacts with criminal behavior patterns were not necessary for learning techniques of trust violation. Also, Cressey noted that the specific sources of rationalizations for trust violation could not be identified precisely.23

Relatively little empirical support now exists for the differential association perspective. It does draw attention to the role of learning certain values and norms, as well as techniques and motives. However, another aspect of Sutherland's theoretical perspective frequently has been overlooked. Sutherland proposed the concept of "differential social organization" or "differential group organization" as a complementary concept to differential association.24 Cressey has pointed out that Sutherland was not only concerned with the processes by which one becomes criminal, but also with organizing and integrating the factual information about crime rates.25 Behind "differential social organization" lay the notion of inconsistent standards of conduct, creating strains for crime. Both differential association and differential social organization,
then, could be used to account for variations in rates of crime between or within social organizations.  

Though Sutherland's emphasis on the importance of social organization was obscured by his emphasis on differential association, gradually the issue of social structure began appearing in the theoretical efforts of others. The influence of social structure was acknowledged by recognition of norm and value conflict within and between groups. Aubert, for example, demonstrated that businessmen face contradictory values and norms: a "universalistic" obligation as a citizen to obey the law, and a "particularistic" obligation as a businessman to avoid only the most blatant offenses and to resist the law whenever possible. They condemn violation of law in general, but they also justify violations in certain situations. Quinney found that the structure of the occupation produced differential orientation to law violation. Though business values, in general, conflict with universalistic social obligations, occupational role organization can restrain businessmen from violating the law.

Though the work of Aubert, Quinney and others began to point to the relation between structure and illegal behavior, the importance of the organization itself had not yet been explored. The classic period of inquiry offered nothing further in elaborated theory than indications by many that the problem was bigger than simply the social class of the offender. No definitive theory emerged. The research of the period reflected the amorphous nature of knowledge at the time. Empirical studies groped for some kind of theoretical integration and cumulative insight.
Research. The initial years of sociological inquiry into white-collar crime were characterized by efforts to establish the basic dimensions of the phenomenon. Researchers were preoccupied with determining the extent of violations and possible explanations. They examined particular industries and/or violations of particular laws as subject matter, resulting in interesting findings in discrete areas with little interconnectedness. If any consistency can be found in the research that emerged at this time, it lay in the several attempts to test Sutherland's theoretical perspectives. Sutherland's own research, as well as that of Clinard, Cressey, Lane and Quinney, was directed at empirical verification of his theory. Another common factor was in the number of studies examining violations of regulations related to World War II.

Limited access to data was a serious handicap. A high degree of ingenuity was required to secure any information on this topic. Researchers relied heavily on public documents on corporate crime. An important source of data was administrative agencies responsible for enforcement of wartime programs, such as rationing and rent controls. These agencies collected data on violations, which in many instances became public information and, therefore, accessible to sociologists. Due to sensitivity of subject matter, interview data was seldom available for studies of corporate violations. Given the limited extent of conceptual and theoretical development, and the inherent difficulties in empirical work on white-collar crime, the amount of research carried out during the classic period is significant in its own right. A review of the work done during this period will illustrate the diverse attempts to learn more about this kind of crime.
Sutherland, an innovator in conceptualization and theory, was also the first sociologist to do an empirical study of white-collar crime. Nine years after his introduction of the concept, he published an analysis of the crimes committed by seventy of the two hundred largest non-financial corporations in the United States. Sutherland examined the extent of the white-collar crime of these corporations. The data revealed a total of 980 decisions registered against them for violation of government regulations, an average of 14 per corporation. Restraint of trade, infringement of patents, and unfair labor practices were the most frequent violations. Sixty percent of these decisions were rendered during a ten-year period (1935 through 1944) of increased government enforcement of business regulations. Although only 158 cases were dealt with by the criminal courts, crimes were actually committed in 779 of the 980 cases. Two-thirds of these corporations had been convicted in criminal court with an average of 4 convictions each. Ninety-seven percent of the corporations were repeaters.

Sutherland's research was followed by that of Clinard, who chronicled the nation's experience with wartime price control legislation in The Black Market. Black market violations were shown to be crimes in general, and white-collar crimes in particular. These violations were complex, evasive and willful. Clinard found that approximately one in fifteen of the three million U.S. business concerns were punished for violations. Various criminal sanctions were used, including fine and imprisonment or both, injunction, treble damages, license suspension suit, and rationing suspension order. However, only six percent of the known violators received criminal sanctions.
Another analysis during the war years was done by Katona. He focused on business adjustments of manufacturers and distributors to price control in the Chicago area, 1942-44. In examining variables related to violation, Katona concluded that sales and profits were not related to price violations, and size of firm did not appear an important factor.\textsuperscript{32} Hartung's research was also a product of the war period. He examined law violations within the wholesale meat industry in Detroit during World War II. The study investigated the differences and similarities in attitude between the general public and the management of the wholesale meat industry regarding price and rationing control violations committed by members of the wholesale meat industry.\textsuperscript{33}

Cressey's research, like Clinard's black market study, was an empirical test of the differential association perspective. Cressey studied 113 criminal violators of financial trust.\textsuperscript{34} This was the first systematic use of the concept of justification for crime employed in a study of business crime. Justifications are techniques of neutralization or rationalizations about the appropriateness of law-violating behavior under certain conditions. They are used to justify an act prior to its commission so that the offender does not have to make a direct assault on a social norm.\textsuperscript{35} Cressey called this the violator's "vocabulary of adjustment."

In another test of differential association, Lane tried to explain the violation of trade practice and labor relations laws.\textsuperscript{36} Lane found violation could not be accounted for by financial needs of a firm, ambiguity or difficult requirements of the law, or personal experiences of managers. Economic position of the firm was a possible factor in
violation. Differential association was partially supported through evidence of isolation of violating firms from attitudes discouraging violation.

Another research attempt at explaining violation of law by businessmen was done by Ball, who examined rent control in Honolulu. Ball's interest was in legal controls of residential rents, their differential impressions of fairness upon the landlords, and relationships between these and violations of rent ceilings in 1952. Thirty-three percent of the rental units in the city were operated in violation of legal rules. Opposition to legal rent control did not appear to play any systematic role in violation; however, previous legal restrictions on legitimate methods for achieving legitimate aspirations seemed to have explanatory potential.

Quinney looked at violations of prescription regulations in relation to the role orientation of retail pharmacists. The research design compared prescription violators to nonviolators. Also a test of Sutherland, Quinney's research focused on "differential social organization" rather than the differential association perspective. Quinney found two alternative occupational roles within retail pharmacy--professional and business. The individual adaptation chosen to adjust to this structural strain was found to be related to prescription violation.

Two early research endeavors focused on attitudes towards white-collar offenses and penalties. Newman's research examined public attitudes toward white-collar crime. People were asked to recommend penalties for offenders involved in violations of the Food, Drug and Cosmetic Act of 1906. Consumers were told the facts of a case, then asked to
recommend a penalty. The findings implied more public condemnation of business crime than had been assumed to exist. Though four out of five felt the penalty given should have been more severe than it was, the penalties selected by consumers were less severe than those traditionally imposed in conventional criminal offenses.

The second attitude study of the period was Aubert's research on the attitudes of Norwegian businessmen toward the rationing of goods and price regulation, and toward violations. His findings indicated a discrepancy between the public's definitions of crime and legal definitions.

The singular case study of the classic period of inquiry was done by Gilbert Geis. He described and analyzed the heavy electrical equipment antitrust cases of 1961. Using information from newspaper and magazine articles, congressional hearings, and interviews, he reconstructed the price-fixing conspiracy, involving twenty-nine corporations and forty-five corporate executives. The intricacies of the case were examined and comparisons made with Sutherland's views on white-collar crime.

Geis's study of the heavy electrical equipment antitrust cases seemed to end the classic period of inquiry. At the close of this period, conceptual development was still in its rudimentary stages, theoretical integration had not been achieved, and research efforts were directed toward the specific rather than the general. However, these are the admitted marks of an emergent interest area. The beginning boundaries were just being established; the dilemmas just being defined. Despite the existence of controversy, or perhaps because of it, the ultimate ramification of Sutherland's presidential address of 1939 was the
recognition of white-collar crime as a legitimate field of study. Twenty years of scholarly inquiry had followed.

**New Trends: Toward a Sociology of Organizational Crime**

Despite promising beginnings, the momentum of these first two decades did not carry into the sixties. Many sociologists, initially intrigued with the topic, made a single contribution to the fledgling area, then went on to other interests. This is understandable, given the numerous structural constraints limiting work on white-collar crime.

First, the nature of the subject matter itself seriously inhibits research. One must consider the "invisibility" of white-collar crime. There is no "body" to be discovered. Frequently, the impact of the criminal act is so diffuse that there is no identifiable single victim. The general public is, unknowingly, the victim. Hence, the act often goes undetected. Discovery then means uncovering the act, frequently a "pencil and paper" crime, through analysis of company records, computer printouts, accounts, and memoranda. Sociologists, minimally trained in business skills, computer technology, law and economics, find themselves unprepared to disentangle the corporate act.

Second, there is the problem of access. White-collar crime is a reflection of the distribution of power in our society. The powerful criminal, especially in an organizational setting, has built-in defenses that exclude researchers from access to information. Even if the training of sociologists prepared them to analyze the data, difficulty in acquiring that data is a serious obstacle.
Third, during the sixties there was little financial support available for research on white-collar crime. Funding agencies were supporting research for control and understanding of traditional crimes, but not those of the powerful. Without institutional resources, little research was forthcoming. A concomitant factor lies in the nature of the profession itself. Sociology, as many other professions, encourages the development of expertise in single areas. The inherent limitations against a continued interest in white-collar crime are in opposition to personal goals for professional survival.

However, despite these handicaps, the '70s have witnessed a revival of interest in white-collar crime. Though a precise explanation of this resurgence cannot be pinpointed, several factors, outside the field of sociology, seem to have contributed.

The influence of Ralph Nader has had undeniable impact. The work of the Nader organization promoted a new ideological climate in which corporations were recognized as having the potential for evil. The uncovering of corporate wrong-doing and consequent publicity impressed the public that they had a new enemy. A public consciousness was created that victimization from this type of crime could be wide-spread and severe.\footnote{42} Investigative journalists of the '70s have reinforced this concern through publication of numerous exposees of "crime at the top."\footnote{43}

In addition, Nader successfully proved that corporations are challengeable. The ability of a minimally-financed but dedicated group of young lobbyists to take up arms against corporate wrongs encouraged others to do the same.\footnote{44} The political response was to increase law enforcement and regulatory efforts to cope with the crimes of organizations. During
the late '60's, funds began to flow in this direction. The Federal Trade Commission made a commitment to consumer protection. The Council of State Governments called for state action in this area, while consumer protection divisions became operative in many offices of United States Attorneys.

In the early '70's, an important linkage was formed between these law enforcement efforts and academia. The National District Attorneys' Association, increasingly concerned with consumer protection, joined forces with the Academy for Contemporary Problems, Columbus, Ohio. The goal was to blend action and research, "which would both enhance prosecutorial capabilities in the area of economic crime and also give new impetus to criminological research in this area." 45 For the NDAA, the merging of interests resulted in an LEAA grant to form special units for the prosecution of economic crime in select cities across the United States. 46 For academia, the result was a 1974 conference bringing together for the first time sociologists who had done the definitive work on white-collar crime. 47

The full impact of this conference on academic interest in white-collar crime cannot be measured accurately. One immediate result was new research in the area by some of those sociologists attending. Another was an increase in both research and theoretical work by graduate students and colleagues at the universities these sociologists represented. Nevertheless, whether due to this conference, Nader, the work of journalists, or simply the undeniable intrusion of gigantic corporations in the everyday life of individuals, sociologists again have begun to study white-collar crime. Courses on the subject have been initiated in various
universities across the country, and once again research is proceeding at both the macro and micro levels.

Substantiation of this revived interest in the topic comes in particular from the recent funding policies of the Justice Department's Law Enforcement Assistance Administration, which is the major federal funding source for research and demonstration in this problem area. A white-collar crime coordinating committee has been formed. In addition to the research mentioned below by Clark and Hollinger, and Clinard and Yeager, LEAA is sponsoring a major five year research program at the Yale Law School. This series of studies by individuals and small groups of researchers should expand the knowledge base on white-collar crime and provide a clearer understanding of the contrasting systems in society dealing with the white and blue collar criminal. These and other related LEAA projects have been mentioned by an LEAA spokesman as "the beginning of a substantial and increasing commitment on the federal level to respond to white-collar crime and corruption."

Thus, after nearly ten years of respite, sociological inquiry into this problem has resumed. However, as work continues, issues related to definition and theory remain controversial. In fact, the characteristics of the classic period of inquiry are still applicable: conceptual development is still in its rudimentary stages, theoretical integration has not been achieved, and research efforts are directed toward the specific, rather than the general. Nevertheless, one fact is clear. Sociologists are developing a framework for the study of crimes committed by organizations. The development of a sociology of organizational crime, as opposed
to white-collar crime, is a macro-level tool necessary for the understanding of a macro-level phenomenon.

Research. The research interests of the '70's in many ways duplicate the characteristics of the earlier work. This could be expected, since the inherent structural constraints upon empirical work (noted earlier) have not been resolved. A single case study has emerged. Jesilow describes in detail the Beech Aircraft case as an example of corporate violence. The work is polemical, citing the ability of corporate officials to escape criminal conviction by paying for their misdeeds in civil courts. However, the work is heavily descriptive and neglects the sociological aspects of the crimes of this organization.

In an effort to update Sutherland's 1949 research, Clinard and Yeager have initiated a systematic analysis of federal and state actions taken against the 624 largest U.S. corporations--industrial, wholesale, retail and service--and their subsidiaries in 1975 and 1976. This project, still underway, underscores the continued reliance on public documents and reports for data.

There has been additional research on attitudes toward white-collar crime following the work of Newman. Reed and Reed examined attitudes of college students of the '70's toward white-collar criminals and appropriate sanctions. Vaughan and Carlo examined attitudes toward seriousness of white-collar crime compared to conventional crime, while Scott and Al-Thakab did a similar comparison at the international level.

Cressey's embezzlement study has been succeeded by research on internal theft. Franklin examined records of employee theft of a large major department store and all its branches over a seven-year period.
Clark and Hollinger's research generated data on the broader topic of employee deviance against the formal work organization. In one innovative expansion of Cressey's early work, which is a function of technological advance, Edelhertz and Walsh have ventured into research on theft of nuclear secrets.

A new research interest, without foundation in the classic period, concerns victims of white-collar crime. In response to Geis's suggestion that patterns of victim responsiveness exist, making some more susceptible to white-collar crime victimization than others, two studies resulted. Vaughan and Carol studied victims of appliance repair fraud, and Edelhertz researched white-collar crimes committed against the elderly.

An Emergent Paradigm. Accompanying this upsurge in research, the '70's also have witnessed conceptual and theoretical advances.

Observable in this work is a shift to the structural level of analysis. The early focus on social status of the offender has given way to an emergent paradigm based on macro-level concepts. Not that this is new. The roots lie in Sutherland's earlier emphasis on differential social organization, Quinney's and Lane's on occupational structure, and Aubert's on social structure and values. What is new is that there seems to be a consensus for the structural approach. Though individual sociologists are investigating divergent topics, the structural orientation provides a common thread.

The first work in the seventies was by Herbert Edelhertz, a lawyer. He re-named white-collar crime as economic crime, in an attempt to move from Sutherland's emphasis on the act to an emphasis on the act itself. Edelhertz identified economic crime as:
An illegal act or series of acts committed by nonphysical means and by concealment or guile, to obtain money or property, to avoid the payment or loss of money or property, or to obtain business or personal advantage.

From this definition, Edelhertz devised a typology of 65 acts to be included under the rubric of economic crime. This definition, being the first attempt at conceptualization in nearly a decade, had great impact in stimulating thought. The Edelhertz definition re-emphasized the inadequacy of Sutherland's work. Other attempts at reconceptualization followed. However, rather than focus on the nature of the act, as Edelhertz did, subsequent efforts began to note the importance of structure.

Pepinsky re-defined white-collar crime as exploitation. Using this framework, he noted research could investigate structural conditions resulting in exploitation or its elimination. Conklin has examined business crime as a function of three separate but interacting structural elements: the value structure of a consumption-oriented economy, corporate structure, and market structure. Leonard and Weber, and Farberman, have pursued the market structure as a major determining factor related to crime in the automotive industry.

Leonard and Weber, and Farberman, have used the term "criminogenic" to describe structural characteristics of the market conducive to corporate violation of the law. Shover, too, used the term "criminogenic" to explain corporate crimes. He stressed the importance of recognizing both organizational structure and interorganizational fields as criminogenic behavior settings. This is consistent with Conklin's insistence upon taking into account both market structure and corporate structure. The recent research by Clinard and Yeager also supports this approach.
In their investigation of the violations of large corporations, they are testing hypotheses concerning corporate illegalities and their relation to organizational structure.  

Shover, objecting to Sutherland's atomism, endorses use of the term organizational crime in order to re-focus theory and research at a macrosociological level. He defines organizational crime as:

... criminal acts committed by individuals or groups of individuals, thus including conspiracies, during the normal course of their work as employees of organizations, which they intend to contribute to the achievement of goals or other objectives thought to be important for the organization as a whole, or some subunit within the organization, or their own particular job duties.  

Shrager and Short also support the move toward structural explanation. They define organizational crime as:

"... illegal acts of omission or commission of an individual or a group of individuals in a legitimate formal organization in accordance with the operative goals of the organization, which have a serious physical or economic impact on employees, consumers or the general public."  

This definition is consistent with Shover's in emphasis on individuals and/or groups within organizations, and the linkage with organization objectives. Shover's definition gives wider variability to types of organizational goals that may be involved. Shrager and Short differ in their inclusion of illegal acts of omission, as well as their emphasis on impact of those acts.

Ermann and Lundman also support redefining corporate crime as an organizational phenomenon. Following Reiss's suggestion for a more general theory that encompasses the deviant character of organizations as well as of persons, Ermann and Lundman have incorporated the concept of organizational crime in an "organizational deviance" framework. This is
one of two efforts of the present decade to move from dealing with defini

tional problems toward development of a theoretical framework.

They begin with the assumption that "the recurrent patterns of be

havior we call organizations somehow contribute to the occurrence of

actions publicly and consensually considered as deviant." Thus, for

sociologists, a major task should be to "focus on those acts that have

come to be publicly recognized as deviant, and on the processes by which

they become labeled and controlled." To facilitate this, Ermann and

Lundman have devised a framework by which an act can be considered as

organizational deviance. The criteria are as follows:

1. The act must be contrary to norms maintained by others outside the organization.

2. The act must be supported by the internal operating norms of the organization which conflict with the organization's formal goals.

3. New members of an organization must be socialized to accept rationalizations and justifications that support action contrary to external norms.

4. To be organizational deviance, as opposed to individual, the action of an individual must have peer support from fellow workers. (This may be passive or active.)

5. Organizationally deviant acts must have support from the dominant administrative coalition of the organization. (This may be passive or active.)

Ermann and Lundman's framework offers two major advantages: 1) study of the crime of organizations is promoted, while also allowing investigation of corporate acts defined as deviant, but not yet sanctioned by law; and 2) the role of organizational processes, as well as structure, is emphasized and legitimated as a subject for research.
A second theoretical approach has been proposed by Clark and Hollinger. Clark and Hollinger agree with Ermann and Lundman that the concept of deviance has more merit than the exclusive focus on criminal behavior. However, their theoretical framework is based on "occupational deviance," which builds on the earlier work of Quinney. They note the existence of a relationship between normative systems and occupational deviance. Four normative systems are recognized as operating in the work setting as sources of occupational rules: 1) society, 2) the formal work organization, 3) the occupational association, and 4) the work group subculture. Often, these normative systems are in conflict, producing differing interpretations as to whether a given act is an example of deviance or conformity. Occupational crime occurs when a normative incongruity exists between society's criminal law and one or more of the other three normative systems. Robin supports Clark and Hollinger's approach. He suggests occupational deviance be used as an overall category which subsumes a typology of occupational crimes. Specifically, employee theft and white-collar crime would be conceptualized as separate parts of the category of occupational crime.

Shover has noted that one weakness of Quinney's concept of occupational crime is that it "doesn't adequately distinguish between occupations which individuals pursue as individuals and those which they pursue within bureaucracies (i.e., as employees or functionaries)." Believing these exist as two very distinct types of phenomena, Shover suggests "occupational crime" should be used to denote violations by the self-employed that occur in the course of occupational activity; those committed
by employees of formal organizations should be considered as organizational crime.

Meier, too, has tried to clarify the concepts of occupational crime and organizational crime. Setting aside the notion of deviance to deal solely with crime, Meier distinguishes white-collar crime from occupational crime, and both from corporate crime. Since occupational crime, as defined by Quinney, can be an act of individuals of either high or low socio-economic status, white-collar crime is but one form of occupational crime. While occupational crime is committed by individuals in the course of their occupation, corporate crime is the behavior of groups of persons, organized in common purpose. These groups of persons can be termed organizations.

This review of the work of the seventies illuminates the structural emphasis of the emergent paradigm for understanding the crime of organizations. Theory and research are still in the developmental stage. The next section will outline how analysis of the Revco case can contribute to development of the sociology of organization crime.

Rationale for the Study. Coleman pointed out that the rise and increase of complex organizations has changed the nature of our society's social structure. New sets of interaction patterns have resulted. In addition to individuals interacting with individuals through roles, now individuals interact with organizations, and organizations interact with other organizations. These new sets of relationships have natural consequences for the understanding of crime. In addition to individuals committing crimes against other individuals, organizations and
individuals now commit crimes against each other. And, as in the Revco case, organizations commit crimes against each other.

There is a further development to consider. The response to the crime of organization against organization has been the emergence and growth of multiple regulatory agencies, such as the FTC and SEC, directed at the social control of large organizations. This occurrence has been so widespread that the monitoring and regulation of corporate interactions has itself become "big business," with the complexity of the regulatory agency at times matching or even exceeding that of the complex organizations it regulates.

What does this imply for research that would contribute to a sociology of organizational crime? There are three potential foci of study: the violating organization; the victim-offender interaction, both roles being played by complex organizations; and, the regulatory agencies designed to discover, investigate, and control corporate crime. The present study attempts to add to the sociology of organizational crime in each of these three areas.

First, this research is a case study of the crime of a large corporation. As such, it focuses not only on the crime, but on the offending organization itself. Despite the inability to tap this large corporation internally, information about the act and the organization were compiled from other sources. (See Appendix A) The need for case studies of corporate crime has often been cited by Geis, Clinard, Meier, Shover and others. In forty years, only two have been produced. The Revco case presents the opportunity to acquire rich, descriptive data on crime
between organizations within a technologically advanced society. The mechanisms for carrying out and detecting the crime were computers. This is the first sociological examination of this phenomenon.

Second, this research will examine the interaction of the two complex organizations involved in the crime, one as victim—one as offender. The analysis will trace the victim-offender relationship prior to the discovery of the crime, and through and after the sanctioning process. The interaction will be examined qualitatively which should add to an understanding of crime between organizations and of interorganizational relationships.

The third and major part of the analysis will probe the network of policing organizations that were involved in the discovery, investigation, and prosecution of the case. Little empirical work has been done on the social control of organizations. If prevention and control of organizational crime is to be achieved, it will be based on empirical discoveries that contribute to the "policing" of corporations.

A basic assumption of this research on the Revco case is that corporate crime should be examined within the context of the multiple organizations designed to control it. Criminologists, however, have not examined corporate crime as a form of behavior involving interorganizational networks. There has, to date, been a clear, if unarticulated, division of labor. Among sociologists, the interaction of organizations has been primarily the realm of those with expertise in complex organizations; the crime of organizations has been the subject of research by criminologists. Given the rise of regulatory agencies to control
corporate conduct over the last several decades, the merging of knowledge of interorganizational networks and crime of organizations seems a logical and fruitful step. The following chapters examine the case of Revco Drug Stores, Inc. in a way that expands the sociology of organizational crime.

Chapter three deals with the network of policing organizations that emerged during the investigation of the Revco case. The interorganizational relationships will be examined against a background of the literature on the topic. Specifically, the emergence of the network will be described with reference to function, resources, and role of each organization. Organizational linkages will be examined. The socialization processes within and between organizations which contributed to the policing capabilities of each policing organization will be described. The cooperation, competition and conflict among these organizations will be analyzed. The advantages and disadvantages of a network of organizations for social control of organizations will be discussed. Finally, the impact of the Revco case on the network will be described. This includes cost of investigation, changes in function of the separate organizations, and ultimate changes in the structure of the network itself.

Chapter four addresses the social control of organizations. The difficulty of controlling crime between organizations will be emphasized by examining structural factors which actually encourage organizational crime. Characteristics of organizational crime that impede investigation, discovery and prosecution will be described. The impact of the publicity and sanctions on Revco will be discussed. Finally, some policy
recommendations are made to improve the social control potential of public agencies dealing with organizational crime.

The methodology for this research will be discussed in Appendix A. Appendix B consists of copies of original documents and figures relating to the case. Appendix C is a detailed report of market behavior of Revco and three comparable drug retailers in the industry, prepared especially for this research by Lynn A. Oberg, Certified Financial Analyst.
FOOTNOTES


2. The classic period of inquiry is here defined as beginning with Sutherland's 1939 address and continuing for approximately twenty years. The work of Quinney (1963) and Geis (1967) is included for two reasons: 1) it is generally accepted as being a part of the earliest definitive work on the subject and 2) Geis's study was of a 1961 case, and though published later in the decade, still can be grouped with Quinney's in the early sixties.


13. Ibid., 52.

15. Ibid., 285.


29. See, for example, Taft, Donald R., Criminology, New York: MacMillan (1956), 250-7, 336-49; Newman, Donald J., op. cit., 60; and Vold, George B., op. cit., 259.


40. Aubert, op. cit., 263-271.


46. Ibid., 1974.

47. The Conference was organized by Simon Dinitz, Herbert Edelhertz and John P. Conrad. Those attending were Marshall B. Clinard, Donald Cressey, Gilbert Geis, Donald Newman, James Short and Austin Turk.


49. Work in process at Yale includes the following: Susan Shapiro, "Background Paper on White-Collar Crime," and "Nature of the Securities and Exchange Commission Enforcement Activity;" Jack Katz, "Federal Prosecution of White-Collar Crime;" Stanton Wheeler, Kenneth Mann and Austin Sarat are conducting a sentencing study contrasting white and blue collar offenders; Susan Rose-Ackerman, "The Economics of Corruption;" Michael Reisman, "A Study of Commercial Bribery in Transnational Settings;" Robert Clark, "Patterns of Regulation of Insider Misconduct by Various Financial Institutions."


61. The results of this research are unpublished at this writing.


64. "Exploitation is per se an alleged use of private property by any challenge thereto, provided the challenge is by someone who claims he, or someone in whose favor he speaks, should have, or should have had use of the property," 231.


67. Shover, Neal, "Organizations and Interorganizational Fields as Criminogenic Behavior Settings: Notes on the Concept Organizational Crime," Department of Sociology, University of Tennessee, January 1976, Unpublished manuscript.


74. Ibid., 17.


Clark and Hollinger, op. cit., 9.


Shover, op. cit., 8.


Ibid., 4.


The information in Chapter I presents what lawyers would call "the facts of the Revco case." Chapter III will constitute an analysis of those facts, using organizational concepts to order the information so that the operation of the social control organizations can be better understood.

The analysis will begin with a description of the social control organizations prior to the Revco case. As the case developed, five of these organizations formed a network. A second aspect of this analysis will examine the emergence of this network, focusing on resource exchange and linkages between the separate organizations which stimulated network formation. Third, processes within the network will be examined: specifically, integration, cooperation, competition, and conflict. Finally, the impact of the Revco case on the separate organizations, and ultimately on the network as a whole, will be described. The concluding discussion will evaluate the network response that emerged in the Revco case.

The Evolution of Conceptual Tools in the Organizational Literature

The involvement of many organizations in the Revco case simply reflects the increased role of organizations in today's world. Gradually, the sociology of complex organizations has evolved to deal with this
occurrence. Specifically, the area has expanded to permit study of interaction at the organizational level of analysis. Thus, the conceptual tools have been developed for analysis of the social control network in the Revco case.

Early research on complex organizations centered on single large organizations and used the case study method. Little attention was given to comparative analysis or to interaction between organizations. Researchers delved into the mysteries of structure and process of single organizations as discrete entities. Later efforts expanded to the comparative study of organizations, in which numbers of organizations were studied, as opposed to single organizations. By the early 1970's, however, theory and research on complex organizations indicated that environment, and therefore, other organizations, must be taken into account if complex organizations were to be understood. The shift of emphasis from the study of single organizations, to multiple organizations of similar types, to organizations and their environments was admittedly influenced by increased sophistication of methodological techniques. Nevertheless, the literature in this area began to reflect the dominance of complex organizations in our modern world.

Selznick's 1949 study of the TVA was one of the earliest works to explicitly include the environment as an important external constraint to organizational activities. This idea was elaborated in the writings of the early 60's, when the open systems approach to organizations was developed. In organizational sociology, researchers then began to conceptualize environment and the ways in which organizations interacted with their environments. Terreberry noted that environments were
becoming more "turbulent," and were therefore to be considered as a source of change in organizations, as well as a source or cause of existing conditions. Expanding on this notion, Emery and Trist classified the environment according to four different types based on complexity and fluidity.

Emphasized in this new approach was the interdependence of organization and environment. Levine and White introduced the need for scarce resources as a reason for an organization's interaction with the environment. Litwak and Hylton stressed the importance of exchange, noting the organizational-environment exchange is reciprocal; the organization acts on the environment as frequently as the reverse is true. Thompson pointed to uncertainty as a concept useful for understanding organizations and their environments. He noted that environment constitutes an uncertainty which the organization tries to control and reduce. Weick noted that the organization can structure and mold its own environment, within certain limits, while Thompson and MacEwen discussed four possible strategies for doing so.

A major shift occurred with the work of Evan, who proposed the general concept of environment be differentiated into the specific units with which organizations interact. This concept of "organizational set" explicitly allowed consideration of the entire network of organizations in the environment of a designated organization. Most of this earlier work introduced interorganizational relations as a tool for understanding internal organizational matters. The work of Burns and Stalker, Aiken and Hage, and Lawrence and Lorsch followed this line of thought.
However, more recently, the interorganizational field itself has become a subject for study, without reference to the internal effects on participating organizations. Turk's research has been influential. He noted that the interorganizational field constitutes a network with particular characteristics, and that it exists by virtue of some degree of social integration. Since then, major areas of research related to organizational networks have been directed toward forms of organizational dependence, reasons for organizational collaboration, interorganizational power, problems in coordination of human services, and networking as a strategy for change.

Another recent focus has been on networks as emergent phenomena, in response to particular situations. Since there is little literature on emergent organizations per se, the fact that emergent organizational networks have come to be studied is remarkable. Of particular relevance here is research on organizational response in mass casualty situations. In this substantive area, analysis of developing interorganizational relationships has ramifications for the ultimate effectiveness and efficiency with which those organizations respond to human emergency.

A parallel exists between growth of organizational networks as a response to disaster situations and the present research. There were many unique aspects to the Revco case: the characteristics of the offender; the nature of the crime; the amount of the loss. The various factors combined to produce an unprecedented event—not only unprecedented, but unexpected, in much the same way a disaster is often unprecedented and unexpected. And, also as in a disaster, multiple organizations responded to the event. As response of organizations in mass
casualty situations has immediate and ultimate implications for restoration of social order, the response of organizations to the Revco case has implications for the issue of the social control of corporate offenders.

Ermann and Lundman urge that organizational deviance and control assume increased emphasis in the work of contemporary sociologists. Zald has noted:

"Each industry and its elements are surrounded by a partially unique constellation of control agents with an interest in ensuring organizational performance. ...control agents vary in their strength and effectiveness, depending on several factors, including the degree of tolerance of deviation, the technical means of inspecting performance, the strength of sanctions at their command. Since control agents are themselves part of complex networks and webs of control and have well-developed internal structures, they must be subjected to intensive organizational analysis. These analyses must deal with problems of implementation and effectiveness."^27

Zald's statement recognizes the current complexity of social control and the need for organizational analysis. The sociology of complex organizations has developed the capacity to examine networks of organizations. The remaining sections of this chapter will address those problems of implementation and effectiveness of the social control network in the Revco case, using the conceptual tools developed for organizational analysis.

The Separate Organizations Prior to Network Emergence

Four organizations had direct involvement with the Revco case. Those organizations with direct involvement will be identified as primary organizations. They are the Ohio State Board of Pharmacy, the Ohio State Highway Patrol, the Franklin County Prosecutor's Office and the Ohio Department of Public Welfare. However, within the Ohio Department of
Public Welfare, only two particular subunits participated in the case: the Bureau of Surveillance and Utilization Review and the Division of Data Services. Since these two subunits represented the interests of the larger organization, they will be discussed as if they were separate organizations. Similarly, within the Prosecutor's office, the Economic Crime Unit represented the interests of the county. Therefore, this unit will be central to this analysis, rather than its parent organization. Consequently, the analysis will focus on five primary organizations: the Bureau of Surveillance and Utilization Review (S/UR), Division of Data Services (DDS), Ohio State Board of Pharmacy (OSBdPh), the Ohio State Highway Patrol (OSHP), and the Economic Crime Unit (ECU).

Two other organizations were indirectly involved in the case. Though they did not participate in the investigation, they influenced the development of the organizational network, and are therefore necessary to the analysis. Those organizations indirectly involved will be identified as peripheral organizations. They are the Office of State Auditor, and the Office of Attorney General.

At this point, two limitations are in order. Each of these organizations has highly complex domains. To describe in detail the totality of their separate goals and functions is beyond the scope of this research. Therefore, while a general description and background of each organization will be given, only those aspects of organizational domain particularly relevant to this case will be extracted.

Second, each of the organizations under study interacts on a regular basis with organizations other than the ones designated above, and on an irregular basis with still others. In fact, they may be members of
many organizational networks simultaneously—primary in some, peripheral in others. However, for purposes of this research, linkages between organizations other than the ones specifically involved in the Revco case will be ignored.

The Social Control Organizations

Bureau of Surveillance and Utilization Review, Ohio Department of Public Welfare (S/UR). The extensiveness of Medicaid fraud and abuse are of major concern to those responsible for our national health care system. S/UR was created in response to federal regulations requiring states to establish a statewide surveillance and utilization review program for Medicaid.

S/UR has two major functions. The first is to provide safeguards against unnecessary utilization of care and services and against excessive payments. This task may involve fraudulent filing of claims for services not rendered, prescription splitting by pharmacies to increase professional fees, doctor shopping by recipients, or excessive "emergency" service to circumvent prior authorization requirements. The second responsibility is to monitor and control the quality and level of Medicaid care delivered to Medicaid recipients. This task includes prescribing of contraindicated drugs, or excessive or insufficient lengths of hospital stay, diagnostic laboratory procedures, or medical procedures.

The goals of S/UR, as stated in the training manual, are:

1. to guard against fraud and abuse of the Medicaid program by its individual providers and recipients
2. to assure that Medicaid recipients receive necessary medical care at a level of quality consistent with that available to the general population

3. to exercise necessary fiscal control over federal and state tax dollars

4. to assure provider and recipient compliance with rules and regulations of the Medicaid program

5. to comply with federal laws and regulations

Though not included in the written goals of the organization, a major implicit goal of S/UR is to recover the funds lost to the state through misuse of the system, both by providers and recipients. This was confirmed both through interviews and through examination of S/UR reports. Quarterly reports filed by the unit indicate "success" is measured by "funds identified for recovery" and "funds recovered." These goals are pursued by personnel trained in discovery and investigation.

Suspicious claims may result in requests to Division of Data Services for detailed histories of accounts, generated by computer. Analysts review printouts of provider payment records for indications of fraud or abuse. This desk review process is tedious, for examination of claims involves knowledge of drugs and services, appropriate drug dosage and use, plus an understanding of the complicated numerical coding system that is the key to deciphering welfare department printouts. Desk review is, in fact, a "numbers racket." Suspected instances of fraud or abuse by individual providers and recipients are then pursued through on-site field audits.

S/UR has a number of sanctions to aid in recovery of funds. Sanctioning is a joint process involving the S/UR unit, the Director, and
legal counsel of the Ohio Department of Public Welfare. There are two potential S/UR sanctions:

1. Education: a warning letter is sent to the provider outlining detected practices that may not be pursued without risking suspension or termination from the program. Public Welfare district and county offices are notified of providers being investigated in their areas, and their cooperation solicited.

2. Administrative Action:
   a. Suspension
      If evidence of overpayments, disallowed services, or fraud is substantial and if hard data have been collected, providing solid documentation, the provider may be suspended from the program pending the outcome of investigation.
   b. Termination
      The provider may be terminated from participation in the Medicaid program if all efforts to secure compliance with regulations have failed or if fraud is established.

If the funds cannot be recovered, the findings must (by law) be referred to the Auditor of State, who certifies them for collection by the attorney general. In cases of suspected fraud, legal action may be taken by referring the case to the attorney general, a county prosecutor, or the U.S. District Attorney. In the typical case, referral is made to the attorney general's office.

In sum: the S/UR unit is a policing unit within the larger organization of the welfare department. The central focus of the unit is Medicaid fraud and abuse. The major functions are to discover and investigate fraud and abuse of the Medicaid program and to secure recovery of funds. Sanctions are available to accomplish this task. Prior to the Revco case, S/UR had interacted with the board of pharmacy, the
highway patrol, the auditor's office, the attorney general's office, and most centrally, DDS. There had been no previous interaction with the Economic Crime Unit.

Division of Data Services, Ohio Department of Public Welfare (DDS). S/UR and DDS were simultaneously created by federal regulation and the interdependence of the two units was planned from inception. Ease of interaction and communication is facilitated by location in the same building. By automated means, DDS identifies providers and the areas of their practice where possible overutilization of the Medicaid program may exist. This information is forwarded to S/UR, where manual desk review and field audits are conducted. DDS acts as consultant to S/UR and furnishes and analyzes special reports when requested. Programs are developed not only to aid in discovery and investigation, but also to quantify losses to the Medicaid program.

The Medicaid program was enacted in 1965 under Title XIX of the Social Security Act. Since that time, the program has been marked by rapid growth, not only in terms of its geographical coverage, but in its total annual expenditures of combined federal-state Medicaid funds. In response to this enormous expansion, a model information system was designed to improve the capability of each state to manage and control its Title XIX program. Called the Medicaid Management Information System, this computerized system consists of six integrated subsystems which span the entirety of the state Medicaid program. The operation of these six computer subsystems is the responsibility of the Division of Data Services.
Only the Surveillance and Utilization Review subsystem and its operation are relevant to the Revco case. The principal functions performed by the S/UR subsystem are to:

1. Develop comprehensive statistical profiles and utilization patterns of health care delivery.
2. Reveal suspected instances of fraud or abuse by individual providers and recipients.
3. Provide information indicating the existence of any potential defects in the level of care or quality of service provided under the Medicaid program.

Division of Data Services oversees each of these operations. The subsystem derives most of its data from paid claims; consequently the emphasis is on a retrospective review covering both recipients and providers of service. The programming screens for instances of exceptional utilization. Medicaid activity by individual providers and recipients is evaluated statistically against the mean activity of a group of peers, and any unusual deviation from that mean is noted.

The Bureau of Surveillance and Utilization Review uses the output of the S/UR subsystem as its primary data source for identifying potential cases of program abuse or misuse. In addition to a number of reports of automated analysis routinely prepared and submitted to S/UR, special programs may be requested from the S/UR subsystem in order to gain information obtainable from paid claims but not covered by standard reports. Computer programmers in DDS devise these special programs at the request of S/UR.

DDS has an additional function. Personnel in the unit continually interact with providers to educate for improved system use. Providers
have a number of pre-submission edits that are required. These edits screen claims for errors prior to the forwarding of claims to the welfare department. Instruction on installation and use of these edits by DDS reduces potential fraud and abuse prospectively, in addition to the retrospective monitoring performed by the S/UR subsystem. Therefore, the work of DDS has a preventive focus as well as detection after-the-fact.

In sum: DDS is a subunit of the Ohio Department of Public Welfare whose major resource is computer technology. This technology is used to monitor the Medicaid program for fraud and abuse and to prevent misuse of the system. The information produced by this unit is the basis for the investigative functions of S/UR.

Ohio State Board of Pharmacy. The Ohio State Board of Pharmacy was created in 1884 by a legislative bill establishing a board of pharmacy to examine candidates for licensure as pharmacists. Since then, the agency has acquired additional duties and responsibilities which include principal jurisdiction for the following statutes in the Ohio Revised Code:

1. The Pharmacy Practice Act; Sections 4729.01 to 4729.37
2. The Dangerous Drug Distribution Act; Sections 4729.51 to 4729.66
3. The Controlled Substances Act; Sections 3719.01 to 3719.44
4. Illegal Use and Distribution of Drug Samples: Section 3719.81
5. The Poison Control Law; Sections 3719.30 to 3719.36
6. The Pure Food, Drug and Cosmetic Law; Sections 3715.01 to 3715.73.37
In short, the organization has the legislatively-based authority to enforce drug laws related to dispensers of drugs. Within the state of Ohio, 8,000 pharmacists, 2,000 interns, and 5,000 drug installations are under the authority of this agency.

The organization carries out its responsibility by activities in two areas: compliance and enforcement. Compliance is interpreted as a consequence of education and explanation. Compliance is encouraged by spreading knowledge of drug laws and enforcement activities through communication with individual dispensing facilities and by speeches given by board staff at seminars and professional association meetings. Enforcement is accomplished through inspection and licensing of drug facilities.

License removal is one of several sanctions available to secure compliance. Should a violation occur, the board can handle it one of two ways: through an administrative action, or through the local courts. Through an administrative action, the board may suspend or revoke the license, or fine the licenser (within the limits of the law). Should the violation result in criminal prosecution through the courts, and a felony conviction be the consequence, license revocation is mandatory by Ohio law.

In sum: the Ohio State Board of Pharmacy is a policing organization with specialized knowledge of drugs, drug laws, and drug facilities. It has its own investigative unit, information input from licensed facilities in the form of periodic reports, access to drug facilities throughout the state, and available sanctions. While pursuing their own
investigations, the pharmacy board had interacted with S/UR and DDS, the auditor's office, the attorney general's office, and the highway patrol prior to the Revco case. There had been no previous interaction between the board and the Economic Crime Unit.

Ohio State Highway Patrol (OSHP). The Ohio State Highway Patrol has full police powers to investigate any criminal act on state-owned property. In addition, they may pursue any criminal investigation which involves state property interests. The organization possesses both investigative and arrest powers. Investigations may be initiated by the patrol. Or, the governor of the state may order the patrol to initiate an investigation, subject to approval of the Ohio State Controlling Board, which controls fiscal appropriations for investigations.

In November 1976, prior to the Revco case, the governor ordered a task force of state highway patrolmen to investigate welfare fraud. An investigative unit of five OSHP investigators was permanently stationed in the offices of the Ohio Department of Public Welfare, to be physically proximate to both S/UR and DDS. The authority of the OSHP to investigate welfare fraud cases rested on the right to pursue state property interests. As a policing unit that possessed legal sanctions with which to protect the state's interests, the OSHP had interacted previously with each of the organizations that were later to become a part of the Revco investigation.

Economic Crime Unit, Franklin County Prosecutor's Office (ECU). The Economic Crime Unit was created as a part of a nation-wide project to combat white-collar crime. Funding was secured through LEAA to initiate these special prosecutorial units in county prosecutor's offices across
the county. Since then, the county has assumed financial support of the unit. Initially, the unit received complaints, as well as investigating and prosecuting cases. However, the numbers of cases of fraud, embezzlement and other forms of white-collar crime soon grew to the point where the complaint-receiving function was abandoned. Presently, most cases are referred to the unit from other complaint-receiving agencies in the city. The major function of the unit is to prepare and prosecute cases.

Prior to the Revco case, the ECU frequently had interacted with the highway patrol. The patrol would contact the ECU during their investigations, when cases were nearly ready for prosecution. The ECU would then check that the case had been effectively prepared for prosecution. The ECU had previous experience prosecuting welfare fraud cases, but this was restricted to recipient fraud cases referred to the unit from the county welfare department. The ECU had no previous experience with provider fraud, nor previous interactions with S/UR, DDS, or the Ohio State Pharmacy Board.

The Office of State Auditor. The state auditor's office is charged with the responsibility of ascertaining that all payments made by the state are legal. The office does pre-payment audits of all claims against the state. All claims for Medicaid must flow through their office before checks are written to providers. These pre-payment audits are done both by the office's computer system and by manual review. Since over 1,000,000 claims are processed a month, the computer extracts a sample of these, which is then examined by hand. Should a problem be
discovered, a post-payment audit is conducted, which generally includes an on-site investigation.

The office primarily is a checking agency, focusing on discovery and investigation of fraud against the state. This is accomplished through both computer technology and personnel trained in desk review and field investigation techniques. However, the auditor’s office refers cases of suspected fraud to other organizations, having no sanctioning powers of its own. Formal audit reports are regularly referred to the Economic Crime Unit, the attorney general’s office, and/or professional licensing boards.

In sum: the auditor’s office is an organization with functions identical to those of S/UR and DDS. The focus is discovery and investigation of fraud against the state, with Medicaid provider fraud a legitimate and routine aspect of organizational domain. Another similarity is the reliance upon computer technology to carry out these functions. However, the auditor’s office is distinct from the two welfare department subunits in three ways: 1) the auditor’s office does pre-payment and post-payment audits, while the welfare department subunits emphasize post-payment audits; 2) Medicaid provider fraud is merely one of many types of fraud against the state with which the organization is concerned; and 3) the auditor’s office has no independent sanctioning power. Prior to the Revco case, this organization had interacted with all of the other organizations involved except the Ohio State Highway Patrol.

The Office of Attorney General. The attorney general is the chief law officer of the state and all its departments. The office has both civil and criminal powers in cases in which the state is a party or has
a direct interest. However, at the time of the Revco case, criminal powers were restricted to cases of organized crime. Participation in other criminal matters of interest to the state could only be undertaken upon written request of the governor. This meant criminal prosecution of cases of Medicaid provider fraud had to occur at the county level. However, the attorney general's office had previously initiated civil suit against providers on behalf of the state under the Federal False Claims Act of 1893.

Prior to the Revco case, the attorney general's office had been involved in Medicaid provider fraud cases through direct referral of cases by S/UR of the Ohio Department of Public Welfare. The attorney general's office had previously established regular interaction patterns with all of the relevant organizations except the Economic Crime Unit.

Summary. A number of organizations participated in the Revco case: five as primary organizations and two as peripheral organizations. Of these seven, all were investigative organizations in their own right. The investigative resources of each organization were brought to bear on violators of agency regulations or law. The violators could be either individuals or organizations. Among these seven organizations, investigative technology varied, tailored to the specific tasks at hand. All but two had sanctions available to reinforce compliance. The seven organizations were, in fact, social control organizations created by law and with domains defined by law. Of these, six were state agencies. Only the Economic Crime Unit operated at the county level (see Figure 8).
Emergence of a Focused Network

The network of social control organizations participating in the Revco case evolved gradually. This occurred because understanding of the case was developmental, rather than immediate. As the scope of the suspected crime was slowly revealed, organizations with necessary resources became participants in the network. This is distinct from the analogy used earlier of multiple organizations responding to mass casualty situations. In that instance the response of all organizations is invoked almost simultaneously.

The network that emerged to deal with the Revco case fits the characteristics of a "focused network," as described by Wright.\textsuperscript{42} Wright distinguishes networks from social systems by their absence of wholeness, or coherence, which all systems possess.

"Networks are not limited to a structure of linkages, but based on a set of units and the pattern of linkages between them. Between any two units, no link is necessary, and, in fact, a unit may have no links at all with other units, while still being considered as part of the social network. The emphasis is then upon patterns of relationships between units rather than the tracing of linkages alone."\textsuperscript{43}

A "focused network" is defined as a "non-coherent collection of purposeful social units focused upon accomplishing a specific social task."\textsuperscript{44} This concept allows consideration of the constraints in a situation with a specific task orientation, in the absence of an organized whole or system response. The concept is particularly applicable in the Revco case. No organized system existed to deal with the case when it arose, and the network formed to meet the very special characteristics of this case of Medicaid provider fraud. Further, examination of network
linkages revealed not all units formed links with all other units, therefore meeting the criterion of non-coherence (Figure 9).

Wright's research indicated a focused network response was likely in the absence of coordinated expertise, and tended to occur with complicated tasks. As complexity of the task increased, a network response was found more often. This was related to the need for a complex resource base to respond to a complex problem. The Revco case involved a level of complexity not confronted before in Medicaid provider fraud investigations. Network formation was, indeed, an effort to expand the resource base to deal with this complexity.

Network emergence was precipitated by three factors:

1. The Size of the Problem: The offender was a complex organization, with millions of dollars of assets, thousands of employees, and multiple locations over the state and the nation. Though the several organizations involved were familiar with Medicaid provider fraud, never had there been a case involving a large corporation as an offender, nor a case involving such great dollar loss.

2. Indeterminate Technology: The routine patterns of discovery, investigation and prosecution were inadequate, given the nature of the offender and the nature of the crime. The involvement of computers and evidence stored in computers was a major problem. "How do you sneak up on a corporation?" This statement made during interviews underscores the uncertainty in the situation.

3. Specialization: Each of the social control organizations possessed separate and distinct resources. No single organization had the skills and equipment to pursue the investigation alone.

Braito et al., suggest that "the greater the magnitude and scope of the problem, the more resources needed in the solution." And, given an area of ambiguity, such as indeterminate technology, organizations are willing to share and extend their domains. Conversely, the Braito group suggests that when a technology is apparent and that technology
is associated with a given organization, that organization handles the problem itself and is not willing to share its domain. In the Revco case, the absence of a single social control organization with resources to pursue the investigation alone, the size of the problem, indeterminate technology and specialization stimulated the formation of an organizational network to accomplish the task.

Pre-Existing Linkages

Forrest stresses the importance of "previous interaction patterns" as an important regularity exhibited by emergent groups and organizations. According to Forrest, emergent groups tend to develop around previous interaction patterns, utilizing those patterns as a basis for further structural differentiation and organizational development.

Examination of interaction among these organizations prior to the Revco case reveals pre-existing linkages. The concept "linkage" means any recurrent pattern of behavior which exists between two systems and is supported by both. Aveni points out that patterns of behavior must be purposive and stable for a linkage to exist; in addition, linkage relationships must be supported by both of the systems which are connected. In other words, a linkage is a mutual benefit relationship.

The pre-existing linkages formed between these several organizations involved exchange of resources. The concept "resources" is here meant to include physical facilities and equipment, aggregate skills and competencies, information and knowledge, and organizational sanctions.

For example, the Ohio State Highway Patrol would utilize the ECU's legal knowledge by asking the unit to assess a case under investigation
to insure adequate preparation for prosecution. In exchange, the patrol served as an additional investigative tool for the unit. Or, S/UR frequently relied on the Ohio State Pharmacy Board to gain additional information about Medicaid providers who also were within the jurisdiction of the pharmacy board because they were licensed dispensers of drugs in the state. Knowledge gained by S/UR investigative teams and computer printouts from DDS that pertained to drug facilities would be shared with the pharmacy board. Or, the auditor's office, without sanctioning powers of its own, would forward information to agencies with greater investigative skills and sanctioning power. The auditor's office, in turn, used computer facilities in detection and quantification of monies owed the state, which aided the other agencies (Figure 9).

Two conditions promoted the formation of these pre-existing linkages among the network organizations:

1. Corresponding Organizational Ideologies: All are commonweal organizations charged with protecting the public interest. Though they represent various governmental units (the state, the county) each is a social control organization with a policing ideology.

2. Domain Consensus: The domain of commonweal organizations is defined by law. "Domain consensus," according to Thompson, is a "set of expectations, both for members of an organization and for others with whom they interact, about what the organization will and will not do...it provides an image of the organization's role in a larger system, which in turn serves as a guide for the ordering of actions in certain directions and not in others."52 The public definition of these organizational domains facilitates domain consensus and recognition of the resources of each organization by others.

The importance of linkages as a mechanism for obtaining necessary resources has frequently been noted.53 Litwak and Meyer have suggested organizational linkages as a valuable asset in attainment of organizational
goals. The existence of corresponding ideologies and domain consensus are factors encouraging cooperation. Clearly, the pre-existing linkages formed between these social control organizations involved exchange of resources to facilitate effectiveness and efficiency in carrying out organizational tasks.

Two related conditions concerning the interorganizational linkages prior to the Revco case must be stressed. First, among the seven organizations, linkages between state agencies were common, whereas linkages between the county and state organizations were not as common. The county organization, the ECU, had established linkages with only two of the other relevant organizations prior to the Revco case. The state organizations each had established regular interactions with an average of five other organizations. Second, the previous linkages were formed to facilitate individual organizational interests. As each pursued a particular violator, resources of another organization occasionally were brought to bear on a case of interest to either one or both organizations. Never had all the organizations combined resources to direct efforts toward the control of a single violator. The common focus (Revco) precipitated formation of a focused network, with pre-existing linkages functioning as its basis.

Primary and Peripheral Organizations

Previous linkages played a role in whether a particular organization became a primary or peripheral actor in the Revco case. The two organizations peripheral to the Revco investigation were the Office of the State Auditor and the Office of the Attorney General. The previous
description of the relevant organizations, as they existed prior to the Revco case, indicated that these peripherals had domains nearly identical with those of two organizations that eventually became primary organizations in the case. The auditor's office was responsible for surveillance regarding claims on the State of Ohio. This office relied upon its own computer system and investigative skills to perform this function. This function and the accompanying resources overlap with those allocated jointly to S/UR and DDS by the Ohio Department of Public Welfare. Similarly, the attorney general's prosecutorial skills and available sanctions in general overlap with the resources of the Economic Crime Unit. What factors were involved in the inclusion of S/UR, DDS and the ECU as primary organizations and the delegation of the auditor and attorney general's offices to the role of peripheral in the case?

The evolution of the network occurred as one organization at a time was asked to participate. The decision-making authority resided in the organization that had control of the case at that time. The decision to include or exclude seems to have been based on three factors: 1) the characteristics of the case, 2) specialization and 3) previous interaction patterns.

The pharmacy board asked S/UR-DDS to cooperate after a pharmacist complained a podiatrist was prescribing outside his area of specialization. S/UR and DDS had computer programs and analysts to produce information useful to the pharmacy board. Though the auditor's office also possessed these resources, S/UR's specialized knowledge of drugs and dosages was an advantage over the more generalized skills of the auditor's office. Further, previous exchanges between the pharmacy
board and S/UR-DDS had been reciprocal, while exchange with the auditor's office was predominantly unilateral. Though Levine and White specify exchange may be unilateral, reciprocal, or joint, the definition of linkage being used here implies the exchange must be reciprocal to be considered a linkage. Exchange may exist without linkage formation. In this case, a linkage existed between the pharmacy board and S/UR and DDS. Assuming a linkage between organizations is a more stable relationship than a unilateral exchange, this difference in previous ties, plus the specialized knowledge, would promote inclusion of S/UR and DDS in the network.

The Ohio State Highway Patrol asked the Economic Crime Unit to join the case. Though inexperienced in Medicaid provider fraud, the ECU had repeatedly worked with the patrol on county cases of recipient fraud. Exchange was reciprocal: the patrol would aid in evidence gathering for the unit, and the unit would examine evidence for the patrol to assure a case was adequately prepared for trial. Though the patrol had worked frequently with the attorney general's office, they had not previously collaborated on Medicaid cases.

The decision that the Revco case involved possible fraud, and therefore criminal charges, was made by the patrol subsequent to the on-site investigations of the pharmacy board. Since the patrol was the decision-making body, the prior linkage, plus the criminal prosecution powers possessed by the ECU, contributed to their inclusion in the network.

Had S/UR been a part of this decision, the attorney general's office may have had a primary role and the ECU been excluded. In the past, decisions within the welfare department concerning referral of cases for
prosecution had been made by the agency legal counsel. In all cases of provider fraud, referral had been to the attorney general for civil suit. This fact bears importantly on changes that later occurred in the network.

Interorganizational Network Relationships: Integration

According to Wright, a dominant characteristic of a focused network is the pattern of control. There is absence of centralization or even decentralization. Each unit can make its own decisions. Control and communication structures are minimal, and in many cases non-existent. Control is an emergent process, rather than a ready set of rules. Because of the common focus of all units, there is little concern with coherence of efforts, beyond self-direction of the social units involved. This criterion is met by the social control organizations forming the Revco network. No "linking pin organization" existed or was created to specifically coordinate the investigation. The specialization and particular resources of each organization dictated the division of labor. The domains of the primary organizations were non-overlapping; therefore, responsibility for particular functions was, in most cases, extremely clear.

However, the focused network in the Revco case did not consistently follow the pattern of control suggested by Wright. The network could be described as exhibiting sporadic control. Under conditions of certainty, control and communication structures were minimal or absent. However, under conditions of uncertainty, control and communication structures increased.
A condition of certainty exists when 1) the task is clear, 2) the organizational domain in which the task falls is clear, and 3) resource exchange is unnecessary for task completion. For example, the initial request by the pharmacy board for information related to a podiatrist prescribing outside his area of specialization resulted in DDS producing a claims history and S/UR doing an analysis--both routine tasks, completed autonomously. Under conditions of certainty, the separate organizations pursued their tasks autonomously, with minimal and informal communication and absence of resource exchange.

A condition of uncertainty exists when any of the above three criteria become indeterminate: that is, when questions arise concerning task, domain, or resources. In this situation, one network organization became dominant over one or more of the others. The organization assuming control was the one in whose domain the problem most clearly lay. No single organization consistently assumed dominance; rather, the dominant organization varied with variation in task.

One clear example of this was the execution of the search warrants. The Economic Crime Unit was confronted with the problem of executing the warrants in five locations around the state. This had not been done before. There was uncertainty as to jurisdiction, form of the warrants, form of the affidavits, and personnel to execute them. The unit assumed responsibility for this phase of the case because of its specialized knowledge of the technical requirements necessary for evidence to hold up in court. The ECU then directed and coordinated the efforts of the pharmacy board, the highway patrol, S/UR and DDS throughout the planning, preparation and execution stages. Uncertainty precipitated resource
exchange, increased and more formalized communications, and as noted, one organization assumed dominance and control over the others. The execution of the search warrants, described above, illustrates network behavior under a condition of uncertainty.

The appearance of sporadic control underscores the variability in degree of network integration in the Revco case. Conditions of uncertainty precipitated periods where some or all of the separate organizations became more tightly integrated. However, for the most part, the network could be categorized as "loosely coupled." That is, the separate organizations retained their identity and physical and logical separateness, even though responsive to one another.

A question frequently raised concerning a single organization that is loosely coupled is, what holds the organization together? The same question deserves consideration when the phenomenon under investigation is a network of organizations that is loosely coupled. Simmel points out that a group in conflict clarifies its boundaries and the group becomes unified in confronting a common enemy. The network and Revco could be described as two organizations in conflict. Though each of the network organizations continued to exist as autonomous entities, pursuing individual goals throughout the duration of the Revco case, the common goal of solving the case bound the several organizations together. Wright notes that the focus of a network dictates the units will behave in a certain manner; the common goal results in a coherent effort. In other words, the focus of a focused network is responsible for its integration, as well as its emergence.
Two other factors contributed to the integration of the network: these are 1) the shared ideology of the separate social control organizations, and 2) the resource exchange. Both of these factors played a major role in network emergence, and contributed to integration, once the network was formed.

Interorganizational Network Relationships: Cooperation, Competition, and Conflict

In order to successfully continue the investigation, the common focus, shared ideologies, and necessity for resource exchange led to interaction patterns among the five network organizations that can be characterized as predominantly cooperative. Each organization was uniquely important to the achievement of the network's major task. Each possessed resources—physical facilities and equipment, aggregate skills and competencies, information and knowledge, and organizational sanctions—without which the network could not adequately pursue the Revco case to completion. Thus, each organization was a necessary unit in the network. And, the high degree of specialization of each was accompanied by a high degree of domain consensus. Therefore, resource exchange was voluntary and cooperative, rather than competitive.

The cooperativeness of the interaction patterns is best illustrated by the mutual socialization that occurred between network organizations. For example, the computer knowledge of the welfare department's Division of Data Services had to be conveyed to each of the other network organizations in order for the case to progress. DDS representatives spent many hours in meetings with the other organizations explaining the numerical
codes of the Medicaid system so the evidence could be collected, interpreted, and ultimately explained in court. Many strategy decisions made by the network organizations were based on transference of DDS's knowledge of computer hardware and the Revco billing system. In particular, the computer technology socialization of the ECU by DDS was essential for uncovering the location of the crime within the corporation and the subsequent plan to seize prescriptions with search warrants.

Yet another socialization example was the ECU's training of the highway patrol troopers in the proper execution of the search warrants. Through these mutual socialization processes, the network organizations learned not only of the resources each of the others possessed, but developed a base of knowledge which could be used should similar cases occur in the future.

However, though interorganizational relations were mainly cooperative, competition and conflict also were present: competition for resources outside the network, and conflict among organizations regarding sanctions to be imposed.

Public opinion was a resource for which the network organizations competed. All press releases concerning the Revco case were issued by the Economic Crime Unit. Information released to the press had to be carefully monitored in order not to prejudice a trial. Since the ECU had ultimate responsibility for disposition of the case, legal knowledge made this the appropriate organization to assume the function. The allocation of this responsibility to ECU was done with consent of all other network organizations.
The releases that appeared were issued after the seizure of the prescriptions, and gave information on the facts of the case from that point on. The early stages of discovery and investigation were not reported to the public. Thus, the role of the welfare department's S/UR and DDS units, as well as that of the Ohio State Pharmacy Board, were minimized in the press. In interviews in these three units, members reported that their organization did not get the deserved press recognition.

The source of conflict was related to the goals held by the network organizations, as autonomous units. The focus of the network meant all the organizations had one goal in common: social control of Revco Drug Stores, Inc. However, though this general goal was shared, individually the organizations disagreed on sanctions to be imposed. In other words, they agreed upon the end, but not upon the means. The ultimate sanction was the outcome of plea negotiations between the Economic Crime Unit and Revco. A number of factors—statutory limitations, stock market conditions, organizational pressures, and public considerations—influenced these negotiations (See pp. 20-30). The final outcome was less than hoped for by all the other network organizations. Though restitution of the amount owed the Ohio Department of Public Welfare was applauded by all organizations, the ECU was heavily criticized for the misdemeanor charges, bill of information, no contest plea and amount of the fine.

Litwak and Hylton have noted that conflict between organizations is taken as a given in interorganizational analysis, and began with the assumption that a situation of partial conflict exists. The task of the sociologist, then, is to examine the forms of social interaction
that occur under these circumstances. In the Revco case, the network organization interactions were characterized by cooperation during the discovery and investigation stages, but indications of conflict appeared after the case became public knowledge. Guetzkow emphasized the changing nature of organizational relations, stating that the extent to which cooperation and competition exist in the relations among organizations fluctuates. Summer defined the tension produced by this simultaneous existence of cooperative and competitive relations as "antagonistic cooperation." Indeed, antagonistic cooperation seems an ideal concept to describe the interorganizational relations of these five units.

Impact of the Revco Case on the Network Organizations

The Revco case left its imprint on the network organizations. Major impact was in terms of knowledge, cost, and most significantly, in terms of the functions and structure of the network itself.

The mutual socialization processes that occurred throughout the case left all the organization with an expanded knowledge base. Information on computer hardware and software, the intricacies of printouts, Medicaid billing formats, claims processing and procedures, pharmacy records, search warrant procedures, all were pieces of knowledge in the beginning owned by individual organizations, but in the end shared by all in the network. In addition, each organization had renewed awareness of the others--their particular resources and personnel. These familiarities left the network better prepared to interact in the future, and one might hypothesize that interaction would be more frequent among the organizations as individual units.
There was impact in terms of cost of the investigation. Only one of the organizations kept exact records. The S/UR unit recorded labor and travel expenses from March 1, 1977 through July 5, 1977. Cost for the period totaled $9,872.62. This does not include the computer runs, programming expenses, or any of the responsibilities of the Division of Data Services. Though no estimate is possible regarding the total cost to the network, either as individual organizations or as a unit, the impact of the case on utilization of personnel, equipment, and other resources must be recognized.

Most importantly, the Revco case ultimately had ramifications for the functions and structure of the network itself. Once the resolution of the case appeared in the newspapers, the Economic Crime Unit was heavily criticized for final sanctions imposed. The Ohio Department of Public Welfare also received criticism for not terminating Revco as a Medicaid provider.

What followed must be understood within the then existing political situation. The Governor of the State of Ohio at the time was Republican. The Director of the Department of Public Welfare, a political appointee, was also a Republican. Further, the County Prosecutor, an elected official in whose office the Economic Crime Unit was located, was an elected official, and a Republican.

The Office of State Auditor, held by a Democrat, which had an early opportunity to participate in the case but refused, was responsible for a number of press releases which raised the issue of sanctions in the Revco case. In response to this publicity, four bills were introduced in the Ohio legislature which provided increased penalties for Medicaid
providers who violated the law. All of these bills were introduced by Democratic legislators. Among the bills was HB 159, which was initiated and developed by the Office of Attorney General—also held by a Democrat. The incumbent Attorney General (D) and the incumbent County Prosecutor (R) had both declared themselves as candidates for the Office of State Attorney General in the next statewide election.

In addition to providing increased penalties for Medicaid providers who participated in a fraud, HB 159 allocated statewide criminal prosecution powers to the Attorney General in such cases. Previously, criminal prosecution was delegated to the county level and the Attorney General could only sue civilly under the Federal False Claims Act of 1893.

The bill states:

"(B) When it appears to the Attorney General, as a result of an investigation under (A) of this section, that there is a cause to prosecute for the commission of a crime or to pursue a civil remedy, he may refer the evidence to the Prosecuting Attorney having jurisdiction of the matter, or to a regular grand jury drawn and impaneled pursuant to sections 2939.01 to 2939.24 of the Revised Code, or to a special grand jury drawn and impaneled pursuant to section 2939.17 of the Revised Code, or he may initiate and prosecute any necessary criminal or civil actions in any court or tribunal of competent jurisdiction in this state. When proceeding under this section, the Attorney General and any assistant or special counsel designated by him for that purpose, has all rights, privileges, and powers of prosecuting attorneys. The Attorney General shall have exclusive supervision and control of all investigations and prosecutions initiated by him under this section. Nothing in this section shall prevent a Prosecuting Attorney from investigating and prosecuting criminal activity related to Chapter 3721 and Section 5101.51 of the Revised Code."

The ability to prosecute Medicaid providers for fraud was not removed from the county prosecutor's jurisdiction. However, the attorney general was given the right of first refusal and would refer cases to the county level after first reviewing them. The political significance was that the
attorney general's office had gained the right to prosecute both civilly and criminally, and the right to choose the cases that office would pursue.

However, House Bill 159 had even deeper repercussions for the social control network in the Revco case. The acquisition of criminal prosecution powers by the attorney general's office meant that office was qualified to receive funds under Public Law 95-142, passed by the 95th Congress (91 STAT. 1175). This law was created to "...strengthen the capability of the Government to detect, prosecute and punish fraudulent activities under the Medicare and Medicaid programs, and for other purposes." Under Section 17 of this act, the Office of State Attorney General or another department of state government which possessed statewide authority to prosecute individuals for criminal violations qualified for 90% federal funding to form a state Medicaid Fraud Control Unit.

House Bill 159 granted the necessary prosecuting powers to the attorney general's office. House Bill 159 was signed into law in April, 1978--almost a year to the date after the raids on the five Revco drug stores. Granted three years of federal support, the unit hired 8 attorneys and 16 investigators. Exclusively designed to prosecute providers, the new unit was supported by a contractual agreement with the Ohio Department of Public Welfare that ODPW would turn over all evidence to the state, rather than the county.

In sum, the two peripheral organizations, the state auditor's office and the attorney general's office, were in conflict with the primary network organizations. This conflict was politically based. The consequence was expansion of domain by the attorney general's office by incorporation of external resources. Stern notes the importance of
supraordinate systems in influencing network structure. The attorney general's office, first by expanding domain through legislative action, secured funding from the federal level which created a Medicaid Fraud Control Unit. This new unit usurped the role of the ECU in prosecution of Medicaid provider fraud. In addition to this change in network structure, the inclusion of the Medicaid Fraud Control Unit was supported by a contractual agreement, as well as federal law. The network, originally emerging spontaneously and based on unwritten agreements, had developed a linkage between two organizations that was formalized.

In addition, there were changes in function of two of the network organizations. The ECU would still handle recipient fraud, but would only prosecute such provider fraud cases as the attorney general passed on. The role of S/UR would still focus on abuse and overutilization, but would primarily emphasize quantification of loss in provider fraud cases. Rather than pursuing an investigation to conclusion, S/UR would alert the Medicaid Fraud Control Unit to the possibility of fraud, then forward the case and act as consultant. If the attorney general's office would seek restitution then the role of S/UR would be to quantify the loss.

**Summary and Discussion**

In response to the Revco case, a focused network emerged. This network was composed of five autonomous organizations, highly specialized, each a policing organization in its own right. Network emergence was gradual, and was stimulated by the size of the problem, indeterminate technology, and specialization. Resource exchange was voluntary and cooperative. Network relations were marked by antagonistic cooperation,
the basic pattern of cooperative interaction being marked by occasional competition and conflict.

Though the network was characterized by continual readjustment and redefinition of tasks, power was diffuse. Control and coordinating mechanisms were absent. Network integration was a function of common focus, shared ideologies and resource exchange. The appearance of patterns of sporadic control indicated the variability of network integration, as it ranged from being loosely coupled to being tightly coupled.

The conclusion of the Revco case precipitated a condition of conflict between network organizations and two peripheral organizations. As a consequence, changes occurred in functions of the individual organizations and structure of the network. The county organization, the ECU, was displaced from the network. The attorney general's office, through expanded domain, replaced it as the prosecuting authority. Hence, the future discovery, investigation, and prosecution of Medicaid provider fraud cases would be conducted entirely by state agencies.

This focused network of social control agencies is a unique phenomenon. Examination of its emergence, interorganizational relations and changes in structure and function are deserved because of its very uniqueness. Yet because of the expansion of regulatory agencies in our society, understanding of such joint efforts at social control are even more important. Given, in this case, the absence of a single social control organization to pursue the Revco case, what were the ways in which the focused network approach facilitated social control, and what were some of the problems?
The offender, in this instance, was itself a highly specialized organization with greater complexity, organizational wealth, and resources than any single organization participating in the network. The corporation, distinct from an ordinary offender, also had the characteristic of being in many places at one time. In order to confront this corporate offender, there was a need to comparably expand the resource base of the social control network. Through network formation, the resource base of the several organizations was expanded to include computer facilities and knowledge, access to pharmacy records, investigative skills, expansion of jurisdiction, authority and personnel to execute search warrants, clerical help, and the legal competency required for an ultimate confrontation with the offender. In addition, many of the network organizations had their own sanctions. The "pooling" of resources meant an increase in potential sanctions. The skillful use of these multiple sanctions was apparent in the network's dealings with Revco. For example, the termination of Revco as a Medicaid provider and suspension of payments by ODPW were used as leverage to insure Revco's cooperation during the investigation and plea negotiations.

The flexibility of the network also aided in this case. Uncertain as to the techniques most appropriate for policing a giant corporation, the network organizations were forced to become innovative. The absence of centralized control left the organizations free to bring in whatever other organizations had appropriate specialization and as a consequence, network operations were highly unique. The strategy for "sneaking up on a corporation" and the search warrant execution are examples.
Yet another advantage was the mutual socialization among network organizations. The ongoing learning processes expanded the knowledge of each participating organization. The shared creation of new solutions for confronting corporate crime, plus the awareness of other organizations, resources and personnel, left each network organization better prepared to confront this type of crime in the future, and better prepared to interact.

One problem with the focused network approach was occasional instances of duplication of effort. For example, both Ohio State highway Patrol and S/UR made detailed records of the false prescriptions. Hours of work were involved. This occurred because, despite the existence of the network and the common focus, throughout the investigation each organization retained its autonomy and therefore its separate goals and functions. The S/UR unit recorded prescriptions because their goal was recovery of funds, which necessitated quantification of the loss. The Ohio State Highway Patrol recorded prescriptions because their goal was to gather evidence for trial. In pursuit of two separate ends, the task was duplicated.

A more serious duplication of effort occurred in the early stages of investigation. The ECU spent considerable time and effort trying to piece together information that would reveal how the crime was committed and where in the organization it occurred. (See Figures 2,3,4 and 5) Through interviews, the researcher learned that this information had been uncovered earlier in the case by the Ohio State Pharmacy Board, through use of an informant. Somehow, the solution to the puzzle had never been relayed to the prosecutor's office. In part, this can be
explained by timing, and the distinct domains of the separate organizations. The involvement of the pharmacy board was at the point of discovery, and later in gaining access to individual pharmacy records. When the ECU was brought in to prepare the case for trial, the pharmacy board had completed its major contributions to the case. Earlier examination of the linkages between network organizations indicated no interaction previous to the Revco case between the pharmacy board and the ECU. This absence of a previous linkage may have handicapped communication flow within the network.

Wright notes that the typical pattern of communication in a focused social network is incompleteness, and control does not need to exist if there is no concern for coherence of efforts, beyond self-direction to the social units. In the Revco case, the appearance of sporadic control indicates an occasional need for coherence of efforts, as a response to uncertainty. This model is distinguished from Wright's by this characteristic.

However, the problems cited should not be taken as a natural accompaniment to a focused network response to corporate crime. They may simply have been a function of what Stinchcombe calls the "liability of newness." He points out the relative weakness of newer social structure. This weakness has four sources: 1) the necessity to learn new roles, 2) absence of standard social routines, 3) the necessity to rely heavily on social relations among strangers, and 4) others lack of familiarity with organizational services. In the social control network under consideration, all of these factors were apparent in interorganizational
relations. Should the network have survived with its original members, subsequent interaction may have proceeded with increased efficiency, as a result of the mutual socialization processes that occurred. Yet the problems that occurred should not obscure the fact that an organizational form emerged, for purposes of social control, where none had previously existed. That task was accomplished. The crime was discovered, investigated and sanctions were imposed.
FOOTNOTES


24. The major work on this topic has been done under the auspices of the Disaster Research Center, The Ohio State University, Columbus, Ohio.


32. Office of Program Integrity, Health Care Financing Administration, Post-Payment Medical Review Abuse Cases, Summary Report, Ohio Department of Public Welfare.

33. The information in this section is compiled from "Training Manual for Bureau of Surveillance and Utilization Review, Division of Income Maintenance," Ohio Department of Public Welfare, Columbus, Ohio, February, 1974; Koski, Bernice, "Overview: Surveillance and Utilization Review," Ohio Department of Public Welfare, Columbus, Ohio, November, 1977; and interviews with S/UR staff.


37. Annual Report, Ohio State Board of Pharmacy, Fiscal Years 1976-77, Biennium, July 1, 1975 to June 30, 1977, Columbus, Ohio, 4.


39. 115.35 ORC

40. 109.02 ORC

41. In simple terms, this Civil War statute was created to regulate attempts to defraud the United States or any agents thereof of its money. The act delegates authority for enforcement to the Justice Department, United States Attorney, or U.S. District Attorney. In the event these agents decline to prosecute, any citizen in the state could initiate civil suit in his own behalf as a private citizen. The State Attorney General, acting as a private citizen, can file suits for defrauding the United States in federal courts, (31 USC 232).

42. Wright, Joseph E., op. cit.

43. Ibid., 12.

44. Ibid., 14.

45. Ibid., 77.
46. Braito et al., op. cit., 180.

47. Ibid., 180.


51. The definition of organizational resources is from Howard E. Aldrich, Organizational Boundaries and Interorganizational Conflict," Human Relations, 24 (1971), 224. "Organizational Sanctions," are the addition of this author.


57. Wright, Joseph E., op. cit., 17.


60. Ibid., 1.


63. Litwak and Hylton, op. cit., 224.


69. Wright, op. cit., 17.


71. Ibid., 149-150.
CHAPTER IV

SOCIAL CONTROL OF ORGANIZATIONS

This research has examined a crime between two complex organizations. A major goal has been to abstract information useful to the emergent sociology of organizational crime. In this final chapter, barriers to the social control of organizations will be identified. This will be done by examining: 1) structural factors contributing to crime between organizations, 2) characteristics of crime at the organizational level which impede social control, and 3) the impact of the investigation and sanctions imposed on Revco. Finally, a recommendation for improvement of social control efforts is offered.

Structural Conducements to Crime Between Organizations.

Certain social structural arrangements exist which contribute to crime between organizations, principally by acting as barriers to social control. They exist in the environment in which organizations operate, and within the organizations themselves. Though the conditions and combinations of these factors that result in crime between specific organizations cannot yet be unraveled, they exist in general form for all organizations. Therefore, if social control of crime between organizations is to be addressed, these factors need to be identified. The structural conducements to organizational crime that will be discussed are:
Organizational characteristics, environmental conditions, and a supporting ideology.

Organizational Characteristics. Studies have supported a link between certain organizational characteristics and organizational victimization by individual offenders. Smigel and Ross pointed out that:

The size, wealth and impersonality of big business and government are attributes which make it seem excusable, according to many people, to steal from these victims.

Smigel found a direct relationship between public attitudes toward stealing and organizational size. In general, the findings indicated "the larger and more bureaucratic the victim, the greater the willingness to approve stealing."

Large organizations are frequently thought of as highly impersonal institutions. Fattah points out:

Acts causing immediate and concrete harm to a real, specific and personalized victim are likely to evoke stronger moral resistance than acts in which the victim is totally absent, impersonal, anonymous or unidentifiable, or where the victim is only an abstraction.

The intangibility of the harm legitimates the act. Hence, taking from the government or a large corporation evokes fewer moral scruples than do crimes against more visible victims, such as persons or families.

In addition to Smigel's research relating size to victimization of organizations, Cameron's research on shoplifting indicated a relationship between organizational characteristics, such as the development of self-service, and subsequent victimization. Also, Hollinger's study of employee deviance against the formal work organization found a relationship between property and production deviance and formal organizational sanctions.
Research on this topic has been scant. However, organizational characteristics would seem to encourage the crime of one organization against another, as well. For instance, in the Revco case, the Ohio Department of Public Welfare clearly symbolizes the "size, wealth, and impersonality" that Smigel and Ross mention. Because size is frequently accompanied by geographic expansion and product diversification, opportunity for crime is likewise expanded.

Internal structure also presents increased opportunity for crime between organizations. For example, division of labor is necessary for task efficiency. The delegation of responsibility associated with this division in hierarchical organizations creates subunits with varying autonomy. Autonomy of subunits makes overall control difficult. An outside organization may be transacting fraudulent business with an autonomous organizational subunit, with no countervailing intraorganizational authority present to detect the illegal behavior. Specialization further complicates this problem. In an organization with highly specialized subunits, one subunit may be incapable of detecting on-going fraud in another, due to lack of transferrable expertise.

The technology of an organization also presents opportunities for crime between organizations. An organization's technology is a reflection of the general environmental system in which the organization operates. The advent of computer and other electronic equipment has come to dominate the daily operation of nearly all large organizations, regardless of their major function. The Revco case is simply one illustration of the possibilities for crime created by the widespread use of computers.
Computers are a direct link to organizational resources. Theft can be accomplished without breaking and entering. Large amounts can be taken in minutes, or resources can be slowly drained away over long periods. Organizations, alert to the dangers of electronic crime, work to make their systems "theft-proof" by designing special edit systems to detect fraud. Yet these are not infallible. In the Revco case, the false billings were submitted over a twenty-one month period. Though the welfare department had a highly sophisticated system, the fraud went undetected by the computer. Only when the data were painstakingly analyzed by human eyes was the fraud discovered.

Commission of crime is also facilitated by such characteristics as technology and internal structure. For example, delegation of responsibility within the offender organization further encourages crime by the very fact that personal responsibility is diffused.\(^8\) Determining where within an organization a decision was made is difficult. Conklin aptly states:

> The delegation of responsibility and unwritten orders keep those at the top of the corporate structure remote from the consequences of their decisions and orders, much as the heads of organized crime families remain "untouchable" by the law.\(^9\)

Generally, it would seem that as organizations have increased in complexity, more opportunities for crime have been generated. Increased size, impersonality, wealth, geographic dispersion, product diversification, division of labor, hierarchical authority systems, specialization and complex technologies are all organizational attributes that facilitate crime between organizations.
Environmental Conditions. There has been a growing awareness that understanding complex organizations and their behavior requires examination of the environment in which organizations function. Because crime between organizations does not occur in a vacuum, it is insufficient to focus only on organizational characteristics. Factors in the environment that promote crime of one organization against another are also important.

The economic environment of business organizations includes an ideology emphasizing the principles of free competition and profit maximization. These notions in practice are sometimes in conflict. The desire for competitive advantage causes excesses that work against the principles of free competition. The theory behind an open competitive marketplace is that if a society is allowed free competition, unrestrained by either government or the private sector, resources will be allocated in an optimal manner. However, the emphasis on profit-making in business organizations reflects that survival in this competitive atmosphere is of more immediate concern than the more diffuse goal of optimum allocation of resources.

In the corporate world, prestige is measured by organizational wealth. The annual publication of "Fortune's Top Five Hundred" indicates membership in the upper class of an organizational stratification system. How organizations are ranked within this stratification system is monitored through quarterly reports, earnings and dividends, and stock market transactions. The key to social mobility within this system is increased profit. Levine suggests that:
Advanced industrial societies, characterized by highly refined systems of social stratification, generate a set of victimization opportunities associated with social relationships based on the social standings of the parties. An integral feature of such relationships are interests in the acquisition, maintenance and defense of personal and mutual status, social esteem, and public reputation. Thus, restraint of trade actions like price-fixing and discriminatory price-cutting, theft of trade secrets, false advertising, and bribery and pay-offs to insure market share, could be described as "reputational victimization:" that is, victimization of one organization by another that offers the potential of increased profit and therefore upward mobility in the organizational stratification system.

Organizational norms reinforce actions that result in profits. Frequently profit-making, the most valued business skill, is pursued at the cost of honesty. The following memorandum, issued by General Electric to company employees, is illustrative. It lists the performance norms by which managers are judged:

1. Profitability
2. Market position
3. Productivity, or the effective utilization of human, capital and material resources
4. Product leadership
5. Personnel development
6. Employee attitudes
7. Public responsibility
8. Balance between short-range and long-range goals

If one can assume that these criteria are listed in descending order of importance, the discrepancy in rank between profitability and public responsibility supports the point. Shover, reflecting on achievement of
organizational goals, noted "... many times organizations become so
preoccupied with the achievement of goals that they virtually give their
employees - or demand - carte blanche powers to use 'innovative' pro-
cedures to assure those goals are attained."16

These norms supporting profitability at the cost of integrity
seem to be common across organizations. Conspiracies victimize customers
(other organizations) and are in clear violation of the law. In the
1961 heavy electrical equipment antitrust conspiracy, defendants testi-
fied that price-fixing in their specific industry was "an established
way of life."17 One official stated price-fixing "... had become so
common and gone on for so many years that I think we lost sight of the
fact that it was illegal."18 In other instances, interorganizational
norms emerge supporting unethical behavior that interferes with free
competition, though no legal violation occurs. In 1975 and 1976, bribes
and questionable payments to foreign countries were discovered to have
become a routine part of commercial practice for many firms. Payments
were made not to "outcompete" foreign competitors, but rather to gain
an edge over other U.S. manufacturers. The Council on Economic Prior-
ities noted the frequency of this practice by labeling it the "norm of
bribery."19 Daniel J. Haughton, ousted as chairman of Lockheed Aircraft
after the corporation admitted $22 million of political payments, said,
"I didn't do anything wrong. We did it playing the rules of the game
as they were then."20

The potential of increased profit and upward mobility are made more
attractive by the low risk of legal sanctions.21 In a credit economy,
organizational transactions are characterized by trust and intangible
exchange. Hence, crime between organizations has low visibility. Those cases that do become known are generally treated with leniency. The community respectability of businessmen, their media influence, political concerns of prosecuting authorities, statutory limitations, and the existence of regulatory agencies which seek compliance rather than punishment also are related to low risk of sanctions. A recent development has further minimized risk of sanctions. Difficulty in detection has resulted in development of specialized private departments for dealing with the loss, its discovery, and treatment of the accused. This tendency for organizations to develop their own systems of private dispositions frequently results in failure to publicly stigmatize offenders.

A number of environmental conditions have been suggested here as factors that facilitate crime between organizations. The contributing factors suggested are: the conflict between free competition and profit maximization; an organizational stratification system with wealth as its base; norms which support profit maximization; and low risk of sanction. All are structural in nature. All contribute to an explanation of the fraudulent transaction perpetrated by Revco upon the Ohio Department of Public Welfare.

Though both Revco and the Ohio Department of Public Welfare are complex organizations, they are clearly unequal adversaries in one major respect. One is a public agency, while the other represents private enterprise. While private enterprise and profit-making are highly valued in this society, governmental agencies seldom receive similar respect. They are generally held in low esteem. Stereotyped imagery of red tape, indolent civil service employees, bureaucratic delays, inefficiency,
absence of public accountability, and incompetence defines most public agencies as low status organizations. In this sense, government agencies are peculiarly vulnerable to victimization. The Revco case is an instance of crime between two organizations ranked very differently in the organizational stratification system.

Revco, listed in Fortune's Top Five Hundred, is among the "corporate elite." Conklin has noted that the profit drive in the pharmaceutical industry is especially strong. The interaction between profit and the drive for public reputation was clear in the Revco case. The 50,000 rejected claims represented outstanding accounts receivable, which cut corporate profits. The false billings were an attempt to bring accounts receivable back into balance, thus presenting an improved image of the corporation on paper. The act itself was supported by internal norms that rewarded profitability. The concern with profits and social standing was displayed throughout the case, in corporate requests for minimal publicity and speedy settlement.

Risk of sanction was low for several reasons. The crime itself involved little risk of detection because of the intangible nature of the exchange between Revco and the welfare department, and because of the special skills possessed by the person's responsible. Also, as a government agency, the welfare department has no public audience to which it must be accountable for financial matters, in the sense that private enterprise must be accountable to owners. This further lessens the possibility of detection of the crime. Finally, barriers to punishment, as noted earlier, existed in the environment, minimizing risk of sanction.
A Collective Definition: Organizations as Legitimate Targets.

Witness the behavior of a man who took his car to the auto service department of a major retail chain. While waiting many hours on the premises for his auto to be repaired, he watched the mistreatment and actual damage of cars of other customers. His own car was repaired. However, work in excess of that agreed to was done, and over objections, he was forced to pay. The next day, he walked into a retail outlet of the same store, picked up a set of jumper cables from the shelf, and walked out without paying. The sense of mistreatment and inability to right the wrong resulted in the commission of an illegal act against the organization.23

Dynes and Quarantelli24 first explored this phenomenon in their study of organizations as victims in mass civil disturbances. Organizations were selectively looted by ghetto residents. Certain types of stores were attacked, while others were ignored. Widespread looting was not explainable by objective characteristics of the selected organizations. However,

... other factors appear to be more influential in the selective process than whether the objects of attack do or do not actually have certain objectionable features. More important is how organizations, especially classes of them, come to be perceived. In essence, what appears to be involved is best described as a collective definitional process.25

Certain stores came to symbolize economic exploitation to the looters. This collective definition was followed by a redefinition of property rights related to these organizations. Perceived exploitation resulted in a reversal of traditional definitions of property and the emergence of a normative definition of the right to use organizational
resources. Though Dynes and Quarantelli offer the explanation within a particular historical-geographic context, they suggest that the process of collective definitions and redefinitions is not restricted in time or space. Certain types of organizations come to symbolize economic exploitation, whether they actually exhibit it or not.  

Increased media exposure of organizational criminality may be generating a collective definition of large organizations as exploitative. Cases like the recent General Services Administration scandal, and cases of industrial espionage, price-fixing and tax evasion at the corporate level are no longer shocking to the average citizen. Not only are these crimes between organizations constantly before the public, but crimes of organizations that directly harm individuals fill the headlines. The notorious Equity Funding, Beech Aircraft, Firestone Tire, and Ford Pinto cases have elevated public sensitivity to abuses of power which ultimately impact the economic and physical well-being of individuals.

The addition of criminality to the stereotyped notion of organizations as impersonal bureaucracies which are inefficient and do not serve the public well may be contributing to a "rip-off mentality" among certain segments of the American public.  

Increasingly, individuals and organizations are using illegitimate means to gain access to organizational resources that remain elusive when pursued by legitimate means. The individual who took the jumper cables and Revco present parallel examples. In both cases, there was interaction with an organization which was viewed as possessing resources owed the other. In the jumper cable case, the auto service organization did more work than required and the individual was forced to pay.
He perceived that the organization held resources he deserved. In the Revco case, the pharmacy company similarly believed the Ohio Department of Public Welfare was in possession of funds legitimately due Revco. In both cases, illegitimate means were used to acquire resources. Though legitimate means were available, they were unsatisfactory alternatives. In the jumper cable example, redress was not attainable through normal bureaucratic procedures. In Revco's case, use of legitimate means worked against the pharmacy's profit-making interest. These examples indicate the presence of emergent normative definitions of the right to use organizational resources.

The interplay between collective definitional processes, perceived exploitation, and redefinition of property rights offers considerable insight into crimes between organizations. The notion is that organizations are exploitative and therefore can be exploited. Given the contribution of tangible organizational characteristics and environmental conditions discussed previously, this provides the missing element in understanding crimes between organizations: a legitimating ideology. These three factors have been suggested here as contributing to organizational crime. Any mechanism for social control must be recognized as operating within a structure which facilitates the organizational behavior it is designed to repress. In addition, there are other barriers to control of organizational crime based on the peculiarities of crime itself at the organizational level. These characteristics further impede efforts of social control organizations.
Crime Between Organizations: Characteristics That Impede Discovery, Investigation and Prosecution.

Discovery. Crime between organizations differs from traditional crime in several respects. First, crime between individuals is often discrete in time and space. When crime occurs between organizations, such distinctions are seldom possible. Organizational crime is more accurately conceived as longitudinal, rather than cross-sectional. The interaction which culminated in the false billings in the Revco case had been on-going between the two organizations for six years. The crime itself—the creation and submission of the false billings to the welfare department—occurred over a twenty-one month period. Furthermore, the "location" of the crime was dispersed, rather than spatially confined. Organizations, unlike ordinary actors, have the capacity to be in more than one place at a time. Revco, for example, was located not only at corporate headquarters in Cleveland, but in 159 retail outlets around the state at the time of the crime. The Ohio Department of Public Welfare was similarly scattered around the state. When and where the act was committed was unclear because of the special nature of organizations as actors.

Second, traditional crime is characterized by behavior that is overt and objectively ascertainable. This implies that the crime is committed in some public way—public in the sense that if a witness were present, the act could be seen and interpreted: a blow is struck, a gun is fired. When organizations occupy the role of victim and offender, the interaction does not occur in any way that could be comparably
defined as "public." The interaction leading up to the crime in the Revco case was conducted through phone calls, correspondence, interdepartmental memos and private meetings. Rather than a single incident, there were many, and in multiple forms. Only a part of this became permanent written record. The crime itself was concealed in the numeric codes of computer tapes, printouts and claims analyses. Rather than a single occurrence, there were many instances of false submissions. Yet there were no visible indicators a crime was being committed. The actual loss to the welfare department was so thoroughly buried by the two organizations' computer technology that discovery was accidental.

In large measure, crime between organizations is invisible, hidden within the private confines of each separate organization. The act in its entirety simply cannot be defined as overt and objectively ascertainable behavior. There is no possibility of a "witness" to such a crime in the traditional sense of the word. Conceived and carried out within one subunit of a large organization, transferred onto computer tapes and passed from one organization to another in this form, the crime in the Revco case was hidden even from the view of the members of the local organizations.

Uncovering crime at the organizational level is further complicated by the inability to penetrate organizational boundaries. Granted, law enforcement representatives have greater success at this than do sociologists. Yet both are handicapped in sorting out the facts. Since discovery of illegal organizational behavior is more likely to occur after-the-fact, if at all, analysis of criminal behavior is retrospective by definition. Documents tracing the interaction of the organizations
involved record only selected aspects of the case. Evidence in written form and on computer tapes can be destroyed. Organizational membership changes. The possibility of discovering that a crime has been committed is remote. Once discovered, gathering evidence is another challenge still.

Investigation. There is a strong need for specialized knowledge in conducting investigations. Crime at the organizational level is complex. It does not fall into categories which have clear legally defined characteristics, such as "armed robbery," or "breaking and entering." Fraud, for example, may occur in any number of ways. The complexity of the crime is complicated by the characteristics of the organizations involved.

In the Revco case, there was no single social control organization with sufficient expertise to pursue the case from beginning to end. Thus, a focused network emerged which increased the resources to be applied in the investigation. That five separate public agencies were required to conduct the investigation of a single crime is noteworthy for two reasons. First, it demonstrates a lack of preparedness to deal with organizational crime. No social control mechanism existed. Hence, one was formed to fill the need. Second, it points to the inadequacy of public agencies to combat crime in private enterprise. The resources of five separate agencies had to be pooled in order to challenge the corporation.

Even with the sharing of resources, the network was operating in a condition of uncertainty. Vast amounts of learning were necessary to determine where and how the crime was occurring in the organization.
There was continuous need to rely on computer experts. The nature of the evidence was such that its possible destruction was an overriding concern. The characteristics of the offender and the crime made the seizing of the evidence a totally innovative procedure. The social control network was on unknown ground. Every precaution was taken to avoid technical errors which would provide Revco a loophole. Decisions regarding seizing evidence in five separate jurisdictions simultaneously, whether to use search warrants or subpoenas, preparation of the documents, and execution of the warrants themselves were made with extreme caution. Though the tasks defined by the network were successfully implemented by use of innovative methods, the uniqueness of organizations and their crimes suggests each case would require similar innovation. Admittedly, there are similarities across organizations, such as multiple locations and computer technology, that might generate similar strategies as in the Revco case. Yet industries differ and computer hardware differs. Investigation of computer crime in the pharmacy industry requires knowledge specific to that industry. In that sense, many of the skills developed by the social control network will not transfer to future cases.

Once the evidence was obtained and Revco's cooperation was secured, the network organizations still experienced difficulty in untangling the crime. Both Revco and the Ohio Department of Public Welfare defined themselves as victims. That Revco did, indeed, falsify prescriptions is indisputable. Yet at no time did the corporation admit to criminal behavior. In fact, throughout the investigation and in public statements
and correspondence Revco assumed the role of the victim, not the offender. Corporate officials documented a past history of difficulties with the welfare department. The unspoken assertion was that the criminal behavior was victim-precipitated: Revco was not to blame.

At the initiation of welfare's new computer billing system in 1972 there were difficulties such as system breakdown, backlogs of claims, and erratic reimbursement. These transition dilemmas meant the state was often behind in paying providers' claims. The rejected claims were viewed as another in a long line of inconveniences caused Revco by the welfare department. Prescriptions had been filled in "good faith." Reimbursement was withheld. The rejects would be costly to correct, because of a "cold audit trail." Revco officials admitted correction was theoretically possible, but not practical. The rejected claims were "rewritten" to "expedite the money the state owed us." Submitting false claims was seen as a solution to a "business problem," not as crime.

Admittedly, how much of Revco's insistence on their own victimization is rationalization, how much is "real," and how much legal defense is open to speculation. Nevertheless, the task of analyzing the victim-offender relationship when both roles are played by complex organizations is not easy. The invisibility of the crime itself, absence of witnesses, and inability of social control organizations to fully penetrate boundaries of organizations inhibits investigation.

Furthermore, these same barriers handicap determination of guilt in yet another way. As noted early, division of labor results in diffusion of responsibility. In the Revco case, the explanation offered
by the corporation was that the plan to falsify Medicaid claims was devised and carried out by two executives without knowledge of other corporate officials. Whether $500,000 in outstanding accounts receivable could accumulate without attracting attention among other corporate executives is a matter for speculation. Whether six temporary clerical personnel could be hired to falsify accounts and the nature of their work remain unknown is also a matter for speculation. Use of the legal concept of "the reasonable person" would suggest commission of the crime could not have occurred without knowledge of other executives. Nevertheless, delegation of authority makes responsibility for decision-making difficult to determine. Thus, invisibility of the crime itself, absence of witnesses, and inability of social control organizations to penetrate boundaries further handicap efforts to uncover the facts.

Prosecution. The nature of the offense and the offender also presented obstacles to prosecution of the Revco case. Issues easily resolved in prosecution of traditional crime needed redefinition. The question of who to name in the charge is seldom an issue in traditional crime. In the Revco case there was uncertainty about charging the two executives, the state subsidiary, or the parent corporation. The nature of the charge itself, usually clear in traditional crime, was unclear in this case. This problem arose from two limits in available statutes: First, Revco's crime was not adequately described in existing statutes. Therefore, Revco's conduct could not easily be fit within punishable acts, as codified in the Ohio Revised Code. Second, the statutes that were potentially useful did not offer penalties commensurate with the
seriousness of Revco's crime, as measured by financial loss to the Ohio Department of Public Welfare. The number of counts, usually obvious in traditional crime, was another dilemma, created by the fact there were thousands of false submissions over a long period of time. Finally, the form the charge should take - bill of information or indictment - was in question. All of these prosecutorial dilemmas arose because of the uniqueness of the case and the absence of precedent.

The characteristics of organizational crime worked against imposition of strong sanctions. Should the case go to trial, the prosecution would be confronted with additional problems. The complexity of the evidence would require testimony of experts. There would be many exhibits. Convincing a jury would be difficult. Effort, time and cost of a trial would add to an already long and expensive investigation.

The outcome of these dilemmas was a decision to proceed by way of information and through a negotiated plea agreement. These decisions were in the best interest of the prosecution, but they also worked to the benefit of Revco. These decisions minimized negative publicity for Revco. The process of sanctioning by a legal authority is not limited to the final outcome of a case, e.g., the $50,000 fine and restitution imposed on Revco. The investigation itself has the potential to initiate informal sanctions. In the case of crime between organizations, related publicity can stir public reaction, with possible economic repercussions on the offending organization through the stock market.

Though decisions about the method of proceeding against Revco primarily were based on difficulties in prosecuting a multi-million dollar
corporation, the impact of publicity on the stock market also was taken into account. Throughout the case, the size of the corporation and amount and scope of the fraud had attracted national attention. Financial analysts from all over the country repeatedly called the prosecutor's office for information which could be used to advise existing and potential stockholders. The knowledge of impact on the market resulted in tight control of information, minimum publicity, and encouraged the decision for a swift and quiet resolution, concerns not present in the context of crime by individuals. This sheds further light on barriers to social control.

An important characteristic of organizational crime that impedes prosecution is that all organizations represent the interests of others. The Revco double-billing scheme was to benefit that organization, by increasing profit. Simultaneously, the act would protect the interests of stockholders by maintaining stock prices and dividends; employees would benefit by maintenance of corporate stability, which would assure employment security; customers would benefit by continued competitive prices; the public-at-large would benefit by any action that would contribute to a stable economy.

The Economic Crime Unit, the prosecuting authority in the case, is a commonweal organization representing the interests of the public-at-large, which includes public investors in the stock market. The official role of this organization requires the divergent interests of various segments of the public be taken into account. The interests of all these categories of actors cannot be served simultaneously. Concern for stock
market investors had to be balanced against the interests of the public-at-large in control of organizational crime. Because sanctions against the offender have the potential to create additional classes of victims, some interests are compromised in behalf of others. Thus, the potential deterrent impact of sanctions is mitigated. Financial impact on stockholders was minimized. However, Revco received this same benefit. The decline in profits that might have resulted from extended publicity was restricted to a short period. (See Appendix C)

Imposition of sanctions can further be impeded because the victim organization also represents multiple categories of actors. The Ohio Department of Public Welfare specifically represents the interests of Medicaid recipients. However, as a government agency, the welfare department also represents the public-at-large. Similarly, employees, as organizational members, are relevant. Because these various categories of actors are related to an organization, crime between organizations results in multiple victims. In the Revco case, the welfare department was the direct victim. Financial loss to the welfare department was immediate. However, the loss was dispersed among the other categories of actors which the organization represents. Welfare fraud imposes costs which affect services to recipients, salaries to employees, and taxes to the general public. Though not involved in the interaction with Revco, these other classes of actors become indirect victims.

The victim organization emerges as a surrogate victim. Directly victimized, it represents the interests of others who are indirect victims because they also suffer harm. These other victims are not visible to the organization committing the crime, nor are they aware harm has
been done. They have neither the ability nor the inclination to complain or take action. Therefore, in negotiating with agencies of social control, the surrogate victim acts not only in its own interests, but in behalf of these invisible victims as well.

This latter fact has implications for sanctions imposed on organizations as offenders. In the Revco case, the welfare department had the power to terminate Revco's contract as a Medicaid provider. Though this was considered, termination was not invoked because it would result in hardship and inconvenience for Medicaid recipients. In event of termination, recipients would have to turn to other pharmacies for prescription services. Because of age, ill-health and disability, mobility of many Medicaid recipients is limited. Needs could not easily be filled outside their own neighborhoods. These interests of Medicaid recipients were in conflict with the interests of the public-at-large to control organizational crime by imposition of sanctions. Not wishing to victimize its own clients, welfare chose not to impose this potential sanction on Revco.

Impact of Investigation and Formal Sanctions on Revco

Despite the barriers to social control that have been discussed, the Revco crime was discovered, investigated and the case concluded. Sanctions were imposed. In the light of the many factors working against social control, assessment of the impact on Revco of the investigation and sanctions is important. However, examination of impact is limited by Revco's refusal to cooperate with the researcher. For example, had access to the organization been granted, impact assessment could have
included examining internal morale through personnel turnover, and impact on profitability through short-run and long-run sales analysis and transactions with drug manufacturers and distributors. Nevertheless, external indicators are available. Some of these indicators are easily interpretable. Others are not. For this reason, this discussion will draw heavily on an expert analysis of impact on Revco prepared by Lynn A. Oberg, CFA. (See Appendix C)

At the close of the case, Revco was sentenced according to a negotiated plea agreement. The corporation was ordered to make restitution of $521,521.12 to the Ohio Department of Public Welfare and to pay fines of $50,000. Revco's Medicaid provider contract with the State was not terminated by the Ohio Department of Public Welfare. Had the contract been terminated, Revco would have lost annual Medicaid prescription sales in Ohio of approximately $2 million, which at the time represented about 2 percent of the company's annual total sales in the state. However, Revco's continuation as a provider was made conditional upon the re-vamping of their pre-submission edit system. In addition, Revco's claims were to be manually reviewed at regular intervals by the Division of Data Services.

There are some ways in which Revco was affected by the legal proceedings that should be stated, although they can't be quantified. Obviously, the corporation incurred costs related to the investigation in the same way the social control network did. Personnel devoted time to the investigation, to inquiring stockholders, and to relevant government agencies. This extended even beyond the formal closing of the case, for Revco's computer department continued to work closely with
the Division of Data Services to make required changes in their pre-submission edit system. Additional cost accompanied the hiring of an independent auditing firm to conduct an internal audit of the company's Medicaid prescription billing procedures and improper billings to determine the amount owed the state.

The impact of restitution and fine, totaling $571,521.12, can be compared to the approximately $650 million in total sales for the company's then most recent fiscal year ended May 28, 1977.34 The sanctions imposed amounted to less than .001 percent of gross. Oberg's research indicated "the settlement resulted in a .03 write off to 4th quarter earnings per share in the year ended May 30, 1977. Since this amount was not material in nature, the company did not footnote it separately in either its 1977 annual report or 10-K filed for that period."35

Oberg's research examines price movement, earnings and price/earnings ratios of Revco during the Medicaid fraud investigation and settlement. This information is compared with that of three similar drug retailers and balanced against market activity for the drug industry over an extended period. Figure 10 of Appendix C is a financial comparison of the four drug retailers from 1971 through 1978. The statistics support the homogeneity of the industry during this period.36 Therefore the three companies chosen are suitable for comparison to Revco. Prior to the investigation, earnings and stock price movements of the four companies were closely correlated. (Appendix C, Figure 11).

Figure 12 examines Revco's stock price and price/earnings ratio ranges through the early phases of the investigation and beyond, in relation to newspaper publicity about the case. These data can be
compared with activity of the other three drug retailers, as shown in Figure 11. The first announcement of the investigation on April 29th precipitated a divergent pattern for Revco. Volume expanded sharply and the stock's price declined. Similar fluctuations occurred with subsequent publicity. Revco's stock price and price/earnings ratio ranges varied, but remained depressed throughout the investigation. These patterns did not occur for the comparison companies. Oberg reports, "After announcement of the settlement the stock's price began to show slight upward movement. This trend continued as the company announced an earnings increase of 23% for the year ending 1977 and a sales advance of 19%." Later publicity concerning related issues affecting Revco (in connection with the Justice Department and the Ohio legislature) was not accompanied by depressions in stock price or price/earnings ratios. The first six months of 1978 indicated Revco's activity no longer deviated from patterns of market activity displayed by the comparison companies, but again paralleled them. Oberg's conclusions are:

While there was a very sharp, downward reaction on the price and price/earnings ratios of Revco's stock, once the litigation was settled and good earnings gains were reported the price of the stock rebounded. By early in 1978 the investment community had essentially "forgotten" the incident and the shares had regained a favorable investment status. As Stuart Robbins of Mitchell Hutchins suggested in his report of August 12, 1977, the monetary cost to the company was small and the independent audit reaffirmed the excellent quality of management and good internal controls. So from a financial, analytical point of view the problem was solved. The company emerged in tact and no future disruptions could be anticipated. Focus could again be placed on earnings and sales trends. Sales remained strong through 1977 and 1978, which seems to indicate that the settlement and admitted wrong-doing had not tarnished Revco's image as a price leader or caused a consumer reaction of boycotting the store.
A stockholder report published by Revco at the close of third quarter, February 4, 1978 allows comparison with a similar report issued in February 1977, the quarter before the investigation began.

Net sales increased 21 percent, earnings before tax increased 18 percent and net earnings were up 21 percent from the comparable period of a year ago.

Net sales were $195 million compared with $161.7 million. Earnings before taxes were $15.2 million vs. $12.9 million. Net earnings were $7.7 million or $.58 per common share compared with $6.3 million or $.48 per common share a year ago.

The most recent dividend, which was paid March 16 to shareholders of record on March 2, 1978, more than doubled the payment rate of a year ago and was the second increase in Revco's current fiscal year. This new March dividend was paid at the rate of 13 cents per common share, up 30 percent from the 10 cents per share paid last December.

We lead our industry in numbers of outlets, and cemented this leadership in February with the dedication of our 1,000th store. Revco operates in 23 states and is adding new retail outlets at the rate of one every four days with 1,014 in operation today.

There are certain boundaries to the conclusions to be drawn concerning the impact of the investigation and settlement on Revco. There was no opportunity to control for factors within the organization that may have contributed to the rise and fall of the stock market during the period in question; for example, changes in policy, marketing practices, or personnel. However, four observations can be made with confidence: 1) the amount of the settlement was almost negligible compared to the total sales of the company, 2) market activity deviated in downward trends from patterns exhibited by comparable drug retailers during the investigation, 3) after the settlement, Revco's stock prices and price/earnings ratios again paralleled the behavior of competitors, and
4) in the subsequent 12-month period, Revco set record highs in sales, earnings, and dividends.

Sanctions were also imposed on the two executives responsible for the false billing scheme. Each was fined $2,000. The prosecution made no recommendation for incarceration or restitution because the individuals involved derived no personal gain from the submission of false claims. At the annual stockholder's meeting in September, 1978, Revco officials announced that one of the executives had resigned and taken a position elsewhere. That same month, he applied for expungement of the record of his conviction for the offense of falsification. The other executive was still with the company; however, he had been laterally transferred to another department within corporate headquarters. Personal and financial impact on the two executives is difficult to estimate. Surely, they suffered public embarrassment and emotional trauma. The nature of their new positions and salaries are unknown. Whether they paid their own attorney fees and fines, or whether Revco paid for them is also unknown. The 10-K report which corporations are required to file annually with the Securities and Exchange Commission mentions that Revco holds indemnification insurance with two companies. This type of insurance will reimburse for any fines incurred by corporate officials while pursuing their official duties for the company. Whether Revco filed claims against these policies could not be learned.
On the Social Control of Organizations

The Revco case is closed. Many questions remain that may never be answered. Yet one among them needs to be addressed, whether there are answers or not. How can crime between organizations be controlled?

The nature of crime has changed so rapidly that, in some instances, no apparatus exists to combat it. The network that developed in the Revco case was a social creation in response to a specific problem. Skills and resources were combined and the task was accomplished in spite of the characteristics of organizational crime that impede discovery, investigation and prosecution. However, because a network formed and accomplished a task does not mean a mechanism for controlling organizational crime exists now where none existed before. The network emerged because of a common focus. The focus dictated the necessary resources, and, as a consequence, the organizations that would participate. The response was to a crime with unique characteristics: Medicaid provider fraud in the pharmacy industry. For another type of crime, the network's developed skills and even some of the organizations themselves become inappropriate.

Organizational crime requires a specialized response. The continual emergence of new kinds of crime works against preparedness. No single organization has developed the capability to pursue various kinds of crime possible at the organizational level, as the police have developed the capability to at least respond to the several types of traditional crime. As a result, there has been a proliferation of regulatory agencies, each with expertise in a specific area.
The emergence of multiple regulatory agencies is a phenomenon of our time. That in the Revco case five separate public agencies were able to cooperate in a common venture is a hopeful indication that the flexibility afforded by a focused network response may be one answer to control of organizational crime. However, the facts of the Revco case point to a serious handicap. Even with the merged resources of the five organizations, the sanctions that were ultimately imposed were so minimal that the company was easily able to absorb the loss and recover. Public responsibility of the social control organizations, resulting in an unwillingness to punish innocents—Medicaid recipients and stockholders—curtailed imposition of harsher sanctions. Also, the social control organizations were confronted with a very real limitation in available statutes.

The law has lagged behind in creating definitive statutes to deal with organizational crime. However, there are indications of change. Many states now have statutes defining organizational criminal liability and personal liability for organizational conduct. Many scholars and activists have taken a public stand that organizational crime should be met with harsher sanctions. Prison sentences for corporate executives, federal chartering of organizations, fines based on gross sales rather than fixed amounts, licensing of businessmen and elimination of "no contest" pleas are some recommendations that have been made. But the possibility of these changes should not obscure another major issue.

Control of crime between organizations has become a contest between unequal adversaries: public agencies versus private enterprise. They are unequal in resources and public reputation. They are at opposite
ends of the organizational stratification system. That this leads to competitive disadvantage is shown by the necessity for five public agencies to pool resources to deal with Revco. Given the structural factors suggested before that facilitate organizational crime, control can only occur through a strong response. One solution might be through change that would increase the resources and public reputation of social control organizations.

Privatization of social control efforts might be a possible alternative to the present reliance on public agencies. As such, the advantages and disadvantages should be considered. Putting social control of organizational crime in the domain of private enterprise itself could eliminate the competitive disadvantage experienced by public agencies. As a profit-making enterprise, both resources and public reputation potentially could be increased. One question to be asked is, how would the services produce a profit?

The organization could work on a subcontracting basis. Since many organizations now have their own investigative units, elimination of these would provide money to hire a private social control organization. Or, rather than subcontracting services to victimized organizations, these new enterprises could be financed by award of a percentage of the ultimate fines imposed on the violators. In other words, they would act as corporate bounty hunters.

Though support of privatized social control may be feasible, there are some other factors to be considered. The extra resources possessed by these hypothetical private social control organizations could not be brought to bear on the early stages of the case. The invisibility
of organizational crime makes its detection by an outside organization difficult, if not impossible. Extensive monitoring would be involved. More than likely, discovery would be by the victim organization. Then, before an outside organization would be called in, the victim organization no doubt would need to verify that a crime had occurred. Thus, a major part of the investigation might be concluded before help was sought.

Once brought into the case, the private social control organization could apply highly skilled personnel and sophisticated technologies to the investigation. However, the government has unique investigatory powers, such as the right to execute search warrants and issue subpoenas, not possessed by private parties. The advantage of the increase in skills must be weighed against the inability to use resources commonly possessed by public agencies.

Even if private enterprise could deal effectively with discovery and investigation, would that affect the penalties imposed? That organizations represent multiple interests has been stressed in this research. Should current recommendations for harsher penalties be realized, the possibility that their imposition would create innocent victims still remains. In the Revco case, consideration for certain segments of the public played a part in the final disposition of the case. If private enterprise were responsible for social control, would these same interests be considered? If so, the penalties would be lessened, as now. And if not, the costs and benefits of such a system must carefully be weighed.

A second approach might be to build resources and improved reputation into the existing public agencies. These agencies could be awarded a
percentage of the ultimate fines imposed on violators, contingent upon that amount being plowed back into the agency to improve techniques and add personnel. Currently, in some state attorney general offices, ten percent of fines collected are returned to agency use for increase of staff size. This suggestion would preserve the expertise already in existence and permit continued use of special investigatory privileges possessed by government agencies, while increasing resources and public reputation. It would also encourage continued joint efforts and exchange of resources between organizations, as in the focused network in the Revco case.
FOOTNOTES


3. Ibid., 29.


9. Ibid., 65.


13. Ibid., 88.


15. Conklin, op. cit., 42.


18. Ibid., 144.


23. Interview, The Ohio State University, 1977.


25. Ibid., 71.

26. Ibid., 72.


33. As a result, in the next year after the case was officially closed, Revco's rejection rates became comparable with those of other providers. Interview, computer analyst, Division of Data Services, Ohio Department of Public Welfare, July 18, 1978.
34. Form 8-K, op. cit., 1.
37. Appendix C, 192.
38. Appendix C, 194.
40. Appendix C, 196.
42. Application for Expungement of Record, Court of Common Pleas, Franklin County, Ohio, Criminal Division, September 14, 1978.
44. See, for example, Conklin, op. cit., Stone, op. cit., Nader, et al., op. cit., Geis, op. cit.
45. Special thanks to Professor Simon Dinitz, Department of Sociology, and Professor Peter M. Gerhart, College of Law, The Ohio State University, for their thoughtful contributions to this final section.
METHODOLOGY

The History of the Study

This research had amorphous beginnings. From an early graduate school seminar on Economic Crime, I became acquainted with the literature and research on what most of us then called "white-collar crime," in the terminology of Sutherland. One tangible product of the seminar was an empirical study of appliance repair fraud, done by another student and me. Though this was a study of business crime, it clearly did not fit Sutherland's notions, for the offender neither wore a white collar nor was of high social status. Further, though sadly lacking in education, sophistication, and expertise, the fraudulent repairman managed repeatedly to slip through the cracks of the criminal justice system. As a result of this study, my interest expanded to research on crime and social control of large organizations.

Later in search of a dissertation topic, I contacted the head of the Economic Crime Unit of the county prosecutor's office. This organization had cooperated fully in the earlier appliance repair fraud research, and I hoped to secure their assistance again. The Revco case had been closed in July 1977. This was November. Permission was granted for an exploratory examination of files in the prosecutor's office concerning the case.

As in most research projects, a preliminary investigation was necessary to determine whether this was a feasible research topic. Access to the prosecutor's files was a first step in becoming acquainted with the details of the case. The files indicated the other organizations
involved, names of individuals connected with the case, and numerous other sources of investigation. A month was spent interviewing ECU personnel involved with the case, examining the files, recording leads, and collecting newspaper clippings. In many ways, it was like beginning a snowball sample. This information would lead to additional resources, until the broad scope of the matter was understood. In retrospect, I remember this period as one of diligent confusion. The documents and names had no logical order to me. I took profuse notes. I organized notes, documents and memos in files by relevant organization. Interviews were typed in duplicate as soon after the actual interview as possible, and personal insights were typed into the notes. Issues that needed clarification were identified by parentheses.

An initial obstacle was my inability to understand the different languages confronting me. Each of the organizations involved had its own: for example, the computer language of the Division of Data Services (pre-submission edit system, direct entry provider, error frequency analysis); the Medicaid language of the welfare department (EOMB's, claims history analysis, warrants); the financial language of Revco (8-K's, 10-K's, price/earnings ratio, operating margins). In these early phases of the research, I was very dependent upon those I was interviewing to act as interpreters.

In January 1978, I contacted the Bureau of Surveillance and Utilization Review (S/UR), the investigatory unit of the welfare department. In the initial interview, I stated my desire to investigate the potential of the Revco case as a dissertation topic. Permission was granted to do preliminary interviewing and access to files also was granted.
From the interviewing and review of documents, intradepartmental memos and computer printouts related to the case, order began to emerge. The details of the case that first appeared ambiguous were clarified by their duplication in records of both organizations. Names came to be associated with particular organizations and responsibilities. After extensive comparative documentation of the case through the cooperation of these two organizations, I concluded there was enough information to do a case study of the double-billing scheme against the welfare department.

The case study approach was chosen because criminology lacks monographic material on the crimes of organizations. The Geis study of the heavy electrical equipment antitrust conspiracy of 1961 has been the only source of descriptive information on the topic. Geis had to rely mainly on secondary sources, and many years have passed since its publication. The Revco case was similar to his study because it involved crime between private and public organizations. However, Medicaid fraud, computer crime, and the social control network were unique elements. I felt the distinctive qualities of the case called for the descriptive approach. Also, the nature of the case suggested Revco might be a cooperative subject, thus generating information on organizational crime from the primary source for the first time.

The major focus would be organizational. There would be three separate parts to the study: 1) the characteristics of the crime, 2) the relation (if any) between Revco's internal structure and the commission of the crime, and 3) the impact of the investigation, publicity and sanctions on Revco. This latter focus could be pursued by
examining personnel turnover, sales, stock price, relationships with drug distributors, employee morale and public reaction. The research would incorporate both qualitative and quantitative techniques. The information would be gathered by intensive interviews with Revco personnel and examination of company and public records.

The next step was to gain the cooperation of Revco. Though traditionally corporations have been viewed as hostile environments for research when the topic is corporate crime, in this case I felt there were three factors that would encourage cooperation. First, the preliminary investigation showed evidence Revco did not view the act as "crime," and therefore there might be a decreased sensitivity to the research. Second, the research itself would provide Revco the opportunity to tell its side of the story, a viewpoint neglected in both local and national news stories. Third, I felt the study of impact on the organization would yield information Revco would find useful.

In February 1978, a meeting was arranged at corporate headquarters with Revco's legal counsel. He expressed several reservations about the suggested research. First, he expressed concern that if I were permitted to question employees, I might include some information in the dissertation that Revco competitors would find useful; e.g., purchasing practices. Obviously, this fear was based on a misunderstanding of "what sociology is and what sociologists do." Second, he was concerned with employee morale. The investigation, he said, had been a difficult time for the company. The executives involved were long time, respected employees, and when one resigned, "tears were shed." The
matter had been closed and the company had moved back to business-as-usual. There was no desire to resurrect the unhappy experience. Third, there was concern about publicity. The publicity associated with the case had immediate effects on the stock price. Major stockholders had been upset and in personal touch with corporate executives. There was nothing to be gained from additional publicity. However, by the end of the meeting, he gave his personal support to the researcher, and suggested he intercede in my behalf to arrange a meeting to secure final consent between the corporation president, the legal counsel and me. The meeting closed with optimism for future cooperation.

The proposed meeting never materialized. There was never any formal statement of the company's rejection of the proposed research. Rather, long distance phone calls to the company president were not returned, and I was informed the matter had been turned over to the chairman of the board. I also was unable to reach him by phone. The attempt to secure Revco's cooperation disintegrated into a series of phone calls with secretaries. One of them laughed and suggested, "We know that you're up to. Why don't you just give up?" This was April 1978, five months after the initial inquiry began.

I decided to pursue the research with a changed emphasis. Rather than focusing on the drug chain itself, the analysis would center on the uniqueness of policing a corporation. There were five organizational units responsible for the discovery, investigation, and prosecution of Revco's false billing scheme. Two others were peripherally involved. Such a massive effort is not required in crime committed by an individual.
A study of the interorganizational relations involved in policing a corporation perhaps is increasingly necessary in a society dominated more and more by corporate actors.

The single interview with Revco taught me an important lesson: the language barrier works both ways. As the sociologist does not understand the particular language of an organization, neither are organizations trained in the language of sociology. This inhibits gaining access to organizations because the absence of understanding can produce misperceptions about the research. Obviously, Revco found my proposed research threatening for several reasons, one being that my writing would reveal business secrets.

Because of this, before approaching the social control organizations involved, I developed what I came to call the "layman's outline." This was an actual outline, chapter by chapter, of what I intended to write, as best as I could then foresee. The outline was intended to clarify the research purpose and by topic-by-topic description, minimize any threat to the subject organization. It would provide something concrete, so that instead of raising the vague issue of "what sociology is," the research purpose could be tied more narrowly to needed information and how it would be gained and used.

April through June were months spent introducing the research topic to heads of the social control organizations involved. The Economic Crime Unit and S/UR, the sites of preliminary work, were contacted in a more formal way than previously. Meetings were held to secure
permission from additional organizational decision-makers. The early willingness to cooperate was again expressed.

The Ohio State Board of Pharmacy, the Ohio State Highway Patrol, Office of State Auditor, and Office of the Attorney General were contacted for the first time. In each case, the interviewee was informed of the history of the research to date, my inability to gain Revco's cooperation, the changed direction of the research, and my specific interest in the role of their organization in the case. In addition, each interviewee was given an outline, and informed that the dissertation would focus on the organizations involved. Therefore, no individual identities would be revealed, and several people from each organization would be interviewed. This was to further protect the identity of interviewees, as well as increase the accuracy of the information and my understanding of the case.

All of the organizations agreed to cooperate. There seemed to be several reasons for this. I had pointed out that their united efforts were unique and the details of their work might prove useful to other states facing similar control problems with large Medicaid providers. They supported the need for some record of their innovative strategies as a guide for others. This reasoning was particularly relevant for the Ohio State Highway Patrol, which as a general practice avoids involvement with outside research.

Furthermore, each of the organizations was extremely proud of their work on the Revco case. Contributing to the solution of the largest case of Medicaid provider fraud in the state's history had
brought them all positive publicity. Contrary to Revco's fear that the dissertation would revive a negative public image, these organizations might expect their "good work" to be positively reinforced.

But most interestingly, their cooperation seemed to be a continued extension of their participation and interest in the case itself. Even nearly a year after the case, Revco was still defined as an enemy target. That the corporation had not offered me their cooperation revived the feelings that Revco should not be allowed to get away with anything. That included the corporation's ability to avoid the research. They felt the facts of the case should be known, and were willing to cooperate to compensate for Revco's unavailability. This is not to say that my access to information was unlimited. Each organization had bounds on the information that could be made public. For example, the Ohio State Highway Patrol records are highly confidential and not open to review by outsiders. Nevertheless, each organization cooperated as fully as possible, within the limits of their own internal restrictions.

Gaining access to these social control organizations was an incremental process. Since the study was to emphasize the social control network, if one primary organization refused to cooperate the research would not be possible, or at least would proceed with difficulty. In addition, the quality and quantity of the information each would divulge would affect the outcome of the analysis. If cooperation were promised and restrictions later put on information, the results could be disappointing. Thus, each organization was approached one at a time for
permission, and one in-depth interview was conducted to determine the available information.

I used an interview checklist and techniques of elite interviewing, as suggested by Dexter. In each case the open-ended question, "Trace the history of the Revco case" was asked. As the story was told, I probed for indications of organizational role, decision-making, and interorganizational linkages. I made note of indications of organizational domain, competition, cooperation and conflict between the agencies. By this time I was thoroughly familiar with the case, and could listen for contradictions and inconsistencies. The information gathering had expanded from simple acquisition of facts to include verification by comparison.

Because the research proceeded in this incremental fashion, after eight months of investigation I was still unsure whether the project as I had defined it could be done. Not until the Ohio State Highway Patrol granted permission and an initial interview was the study of the organizational network assured. This was the last organization to be approached. Paradoxically, the data collection was nearly completed with this interview. It was July 1978.

In order to map strategy for concluding the fieldwork, I studied the typed interview notes and coded responses to topical index sheets. These index sheets were used for conceptualization purposes. For example, any information relating to organizational linkages was identified by interviewee, date of interview, page and line and entered on an index sheet headed "Organizational Linkages." Similarly, the location of any interview data related to impact was entered on an index sheet
labeled "Impact." In this manner, information from all interviews was categorized by topic. Some data applied to more than one topic and was entered accordingly. Organization of masses of material was possible, and contradictory information was revealed. This meant the remaining interviews could be used to clarify contradictions and fill gaps in information.

Ultimately, interviews were conducted with members in all relevant organizations involved with the case but Revco. In addition, there were interviews with state legislators, newspaper reporters, stock analysts, and an accountant. These interview data were supported through use of documents, correspondence, minutes of meetings, intra- and interorganizational memos, annual reports, newspaper articles, computer printouts, and public records. Documents and correspondence between Revco and the various social control organizations were especially important. Though I was given permission to Xerox part of these materials, the bulk of necessary documents remained in organizational files. Therefore, a considerable part of the data analysis was carried out within the organizations themselves. I found this to be an advantage. Not only was expert advice close at hand to interpret the written information, but I could directly observe the operation of the organizations I was studying. However, when formal data gathering was completed, data analysis and writing were done away from the subject organizations. Any questions remaining concerning interview data were handled by phone.
Problems in Research on Crime Between Organizations

Organizations as research subjects present special problems in data gathering, analysis, and the writing of results. I will outline some of the dilemmas that accompanied the Revco research. To be discussed are disclosure boundaries, language, contradictory data, time, documentation, and the role of the researcher.

Disclosure Boundaries. Organizations view the researcher as a suspicious person who will not only take up time, but possibly be a disruptive influence. Permission to do the research hinges upon two important factors: 1) clarity of research purpose, and 2) benefits accruing to the subject organizations. Both of these contributed to Revco's failure to cooperate, and to the cooperation of the others as well.

Each organization has established boundaries for disclosure of information. In this research, these boundaries varied from Revco's absolute impenetrability to an almost open door policy in other organizations. In between these two extremes there were various limitations on certain forms of information within particular organizations. In part, these disclosure boundaries are determined by the roles the various organizations played in the case: criminal or social control organization. But here again the distinction between public and private organizations may be involved. Public agencies must be publicly responsible for their actions, within certain limits. Private organizations may rely on lawyers and secretaries to act as gatekeepers and keep out information seekers entirely. Though there is movement in the
direction of increased accountability of private organizations,2 in general they continue to operate in greater secrecy than do government agencies.3

**Language.** Each organization has its own culture, characterized by a unique language. The language must be understood before the research can proceed in a definitive way. In Street Corner Society, Whyte cited this as a classic problem.4 He spent months in the research setting before any discernable order began to emerge, and he relied heavily on his informant to interpret the language of the subculture he studied. This inability to discern relevant information initially stimulates overlearning. In the Revco case, I spent hours on manuals, reports and computer techniques that shed very little light on the research topic. Development of good rapport with elites in each organization is absolutely essential to learning the language.

Furthermore, reliance on experts outside the organization also is crucial for a study of crime between organizations. During the course of the research I called on journalists, lawyers, legislators, and financial analysts. Appendix C illustrates this point. Without aid of "expert testimony," I could not have discussed the impact of the investigation on Revco in anything but a superficial way.

**Contradictory Data.** The source of interview data in the Revco case were elite informants located in different organizations. Because of the specialized contributions of each of the organizations to the case, interviewees were better informed about some aspects of the case than others. In addition, involvement of elites varied by position within organizations as well. Therefore, though generally information
was consistent, details important to the research frequently were discrepant. This was further complicated by the retrospective nature of research on organizational crime. Memories of events were blurred.

In many cases, written records served to interpret events. However, the "overlearning" due to the language barrier provided accumulated background information that sometimes was the only source for sorting out major discrepancies. For instance: Interviews in the Revco case repeatedly confirmed the difficulty of determining how and where in Revco headquarters the false billings were originating. The Economic Crime Unit had multiple notes and diagrams on file showing how they ultimately traced this down. That this organization resolved the dilemma was firmly established. Months later, the Ohio State Pharmacy Board stated in open-ended interview their organization had uncovered this information through an informant. The date they gave was early in the case - months before the ECU was called in.

There were a number of possible explanations for this divergence. I tried to resolve it in interviews in the other organizations involved, without revealing the problem. Other organizations confirmed that the ECU determined the location of the crime. The resolution came when I realized that of the organizations involved in the case, the ECU and the pharmacy board had never interacted before. It was quite possible that both had discovered the unit and individuals within Revco responsible for the crime, but in absence of previous interaction patterns, the information was never passed on. This was an important finding concerning the advantages and disadvantages of the network approach. The processes
involved in its clarification were almost intuitive, but firmly grounded in a gradually accumulated understanding of the network organizations.

**Time.** Use of the case study approach for research on an organizational network will naturally be time-consuming. Studying multiple organizations and their interactions is comparable to doing a series of community studies. It could potentially be a life-time project. However, the focus of the network in the Revco case meant only certain units within organizations and only selected interactions between organizations were studied. This limited scope decreased time in the field.

When multiple organizations are the research sites there are two major problems which increase time in the field. First, the language barrier, mentioned before, must be mastered in each organization. Second, permission to do preliminary investigation and to do the research is required from multiple sources. Thus, the feasibility period is greatly extended. In the Revco case, seven months of actual investigation passed before a study of the organizational network was a certainty. The ambiguity of investing effort into a project which may not materialize is a problem well-known among researchers. In this case the uncertainty was aggravated by feelings of obligation to elites who had already given time to help. Should the study not be possible through other organizations' unwillingness to cooperate, how could their contributions be justified?

**Documentation.** There were two major documentation problems. The first concerned supporting the data, especially as it is presented in
chapter one. Every sentence could be footnoted as to source. Because multiple organizations were involved, most of the information was confirmed by multiple sources. When this was the case, I did not document the statement. When the information came from a unique source, the origin was identified in a footnote.

The second problem was whether Revco's name should be used. There is a tradition of keeping the identity of the research subject concealed. I wrote the first chapter using a pseudonym for the corporation. However, as writing proceeded, I had difficulty documenting the research. Several questions were raised.

Do I use the pseudonym in footnotes indicating annual reports and newspaper headlines? If I used the pseudonym, anyone looking up the citation could learn the corporation's identity. On the other hand, using the pseudonym meant in some cases the data could not be confirmed because the source couldn't be located; e.g., 10-K reports. Should I give the accurate citation, using the true name, while using the pseudonym in the body of the dissertation? Or should I conceal Revco's name in both dissertation and citations, thus diminishing the scholarly quality of the work?

The problem of Revco's identity was also linked to documentation decisions related to the other organizations. I promised confidentiality to my interviewees. Several people in each organization were interviewed to increase accuracy of information and to insure that no one individual could be pointed to as the source. The presentation of data centers around organizations as actors, rather than individuals.
However, if in text or footnotes, I would identify state and county (Ohio Department of Public Welfare, Franklin County Prosecutor's Office), individuals responsible for the case would be identifiable. Moreover, because of the publicity accompanying the case, once the state was known, the identity of the corporation would be known. A further clue to the identity of all organizations involved is my affiliation with Ohio State University.

I decided to properly identify all organizations in the text and properly document information through fully identified footnotes. Individual sources would be carefully guarded. This decision was based on the following:

1. The case was a matter of public record. Documents and information were available to anyone who would inquire.

2. With the exception of Revco, the other organizations involved were all government agencies. Their social control responsibilities generally are well-known. Their role in the Revco case was well-publicized.

3. All too often, sociologists have focused on the crimes of society's outcasts. Rarely has research extended to the crimes of the privileged. The scarcity of this type of information demands careful documentation.

The Role of the Researcher. At several points during this research I had to confront myself with the question, "What is the role of the researcher?" Certain moral dilemmas occurred which raised the issue. These dilemmas were generated both by the method of gathering data and by the nature of the subject matter.
The intensive interviewing conducted during this research was primarily with people in positions of responsibility in the social control organizations involved. Relationships with some of these people continued over months. During this period, I came not only to respect their expertise, but also to form friendships and loyalties.

On several occasions, representatives of one organization were critical of another. For example, negative comments were directed toward the auditor's office for not taking part in the case, and the ECU was called to task because of the misdemeanor charges that were brought in the ultimate resolution of the case. The criticisms were levied without full understanding of the rationale behind decisions made within these two organizations. I, possessing this information, had strong urges to "correct" what I saw to be misplaced blame—that is, to justify the behavior of one organization to another. This desire was greatest during the actual interview situation when criticisms were raised. Because I wanted to minimize my impact on the situation I was studying, I did not speak up. Nonetheless, when later working in the organization which I felt to be "unjustly accused," I felt guilty for not having done so.

This natural formation of friendships and loyalties over time also created several moral dilemmas when I left the research setting. My interest in and liking for the people I met in the course of the research was genuine. Yet my physical absence from their work world meant the relationships could not as easily be continued. I did not want them to feel my friendship had a purely pragmatic basis, for in fact, it didn't. Yet because of the need to write and other
obligations, I was initiating these contacts less and less. The problem was how to redefine these relationships in a mutually satisfactory way.

There is a second dilemma linked with leaving the research setting. This relates to the use to which the researcher puts the information. The facts of the Revco investigation—the network approach, the innovative procedures, the advantages and disadvantages—have practical utility to other states facing large cases of provider fraud. The need to disseminate this information was a point I presented as one tangible benefit which could result from the cooperation of the multiple organizations. I feel an obligation to carry out this promise. In addition to its intrinsic worth, there are implications for other researchers who might later want the cooperation of these same organizations. The moral dilemma surfaces in the necessary trade-off with professional mandates that this activity would bring. As sociologists, we are not rewarded for disseminating information to those in the real world who can apply it. We are rewarded instead for publication in scholarly journals. Time spent in one direction is time taken from the other. How do we simultaneously meet our obligations as researchers and our need for professional self-perpetuation?

The final question concerning the role of the researcher that presents a moral dilemma is this: to what lengths should a researcher go to obtain information? In the Revco case, there were several issues that will remain forever in doubt because of Revco's inaccessibility. Even had Revco cooperated, some questions would have still gone unanswered because of internal organizational barriers to the "truth."
During the field work there were several occasions when tantalizing information was available were I to use non-traditional research methods. An investigative reporter suggested some techniques for locating the vice-president that resigned from Revco. Though some of the suggestions were non-intrusive and legitimate (such as working through post office change-of-address forms) some ideas I considered an invasion of privacy and beyond the limits of research ethics. In another instance I was informed over the phone by a clerk of criminal records that expungement information, strictly off-limits, might be available. If I dropped by, we might be able to 'work something out.' I didn't follow this up. Another investigative reporter mentioned the common practice in his profession of "using information to buy information." In other words, a subtle form of blackmail. This technique of investigative journalism has not, to my knowledge, been endorsed by sociologists, since it violates the promise of confidentiality.

In studying the crimes of organizations, the barriers to information access are well known. The sociologist has further barriers imposed by the ethical requirements of his own discipline. However, the argument has been raised that the power elite have no right to informed consent. Furthermore, since corporations are inherently hostile, the researcher can use non-traditional means to obtain necessary data. I personally support this view. However, in the Revco case I found myself in a moral dilemma when confronted with the opportunity to enact such practices. Either because of training or personal disposition, I was unable to follow through.
This may be a common problem: as sociologists we subscribe to the ideology, but are unable to put it into use. The investigative journalist hence may get to the heart of corporate acts, while the sociologist is restricted to using only that which is readily obtainable.

As an alternative, consider this. As researchers on crime between organizations, sociologists have openly and repeatedly acknowledged the need for expertise in other areas to understand the problem—law, economics, business. To underscore this point, in the Revco case I turned to lawyers, accountants, legislators and financial analysts for their specialized knowledge. The investigative reporter also has specialized knowledge that sociologists lack—connections and techniques for gaining information, without the ingrained ethical restraints that handicap sociologists. I suggest the investigative reporter be regarded as a legitimate expert which may be relied on to gain understanding of organizational crime. A liaison between investigative journalism and sociology would allow research to be both intensive and extensive.
FOOTNOTES


3. There are some notable exceptions, e.g., the CIA.


APPENDIX B
FIGURE 1

Discovery of Transposed Prescription Numbers in Claims History Analysis—First Indication of Fraud: Ohio Department of Public Welfare Files
Information taken from Provider Detail Report - Rundate 8/4/76.

Recip. #159 in Report and on invoices

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<th>Case Name:</th>
<th>Case Number:</th>
<th>ADC No.</th>
<th>Age: 27</th>
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<td>Address:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Presc. Dr. &amp; Number</th>
<th>Date Rx Written</th>
<th>Rx No.</th>
<th>Date Rx Disp.</th>
<th>Drug Code</th>
<th>Drug Name</th>
<th>Drug Class</th>
<th>Qty. Disp.</th>
<th>Amt.</th>
</tr>
</thead>
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<tr>
<td>*10/2/75</td>
<td>504675</td>
<td>10/2/75</td>
<td>0040006</td>
<td>Valium 10 mg</td>
<td>51</td>
<td>50 tabs</td>
<td>6.83</td>
<td></td>
</tr>
<tr>
<td>*</td>
<td>504674</td>
<td></td>
<td></td>
<td>Cleocin 150 mg</td>
<td>21</td>
<td>40 caps</td>
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<td></td>
</tr>
<tr>
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<td>(504657)</td>
<td>10/4/75</td>
<td>0040006</td>
<td>Valium 10 mg</td>
<td>51</td>
<td>50 tabs</td>
<td>6.83</td>
<td></td>
</tr>
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<td></td>
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<td>Cleocin 150 mg</td>
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<td>40 caps</td>
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<td>15 gms</td>
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<td>40 caps</td>
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<td>50 tabs</td>
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<td>*</td>
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<td></td>
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<tr>
<td>*</td>
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<td></td>
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<td>37</td>
<td>50 tabs</td>
<td>2.13</td>
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<tr>
<td>Date Rx</td>
<td>Presc. No.</td>
<td>DRX No.</td>
<td>Disp. Code</td>
<td>Drug Name</td>
<td>Class</td>
<td>Qty.</td>
<td>Amt.</td>
<td></td>
</tr>
<tr>
<td>---------</td>
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<td>-----------</td>
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</tr>
<tr>
<td>*10/2/75</td>
<td>504675</td>
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<td>Valium 10 mg</td>
<td>51</td>
<td>50 tabs</td>
<td>6.83</td>
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<td></td>
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<tr>
<td>*10/2/75</td>
<td>504674</td>
<td>0090225</td>
<td>Cleocin 150 mg</td>
<td>21</td>
<td>40 caps</td>
<td>13.66</td>
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<td></td>
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<tr>
<td>*10/2/75</td>
<td>504657</td>
<td>0040006</td>
<td>Valium 10 mg</td>
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<td>50 tabs</td>
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<td>0090225</td>
<td>Cleocin 150 mg</td>
<td>21</td>
<td>40 caps</td>
<td>13.66</td>
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<td>59</td>
<td>60 gms</td>
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<td></td>
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</table>

* Note 2 different prescriptions written on same day for same drugs and dispensed 2 days apart.
Revco Audit Department
1. Receive Daily Sales Sheets & weekly reports
2. Verify if correct titles. What record made?
3. What is done by Weekly Sales Report?
4. Send claims to Third Party Billing

Third Party Billing
1. Clerk audit claim - correct frauds
2. Batched by store & batch # and sent recorded for control. What record made?

Revco Data Center
Recorded for control. What record made?
Where sent?

Rece Data Center

Input - Data Conversion?
1. Who puts data in form for machine? How?
   Samples? Instructional material?
2. What is done at pharmacy daily sales sheet?
3. Are input tapes preserved? Where how retrieved?

Operating - Maintenance

Accounting Procedure
1. How is billing reflected in accounts receivable?
2. When state payments are received, what entries are made on company books?
3. What is cash flow w/ this company?

Pharmacy
1. Pharmacist fills out daily Ohio Medicaid
   Likes forms. These are labeled & added
Input - Data Conversion

1. Who puts data in from the machine? How?
   1a. to tapes? Instructional method?

2. What is done of pharmacy daily sale sheet?

3. Are input tapes preserved? Where kept?

Operating - Maintenance

Accounting Procedure

1. How is billing reflected in accounts receivable?

2. When store warrants are received, what entries are made on company books?

3. What is OPD cash flow when company?

Pharmacy


2. Sent weekly to sales audit dept.

1975 - 1976
FIGURE 3

Route Medicaid Claims Follow Between Pharmacy and ODPW: Economic Crime Unit's Notes to Trace Origin of Fraud
**ODPW**

| Record made by pharmacist when each: confidential. | Programming
|--------------------------------------------------|--------------------------------------------------
| Database: | System analyst
| 1. Who received files? | Who performed systems analysis? (Initial report)
| 3. At time files received? | 3. Obtain order out of entire program?
| 4. Key operator access to computer? | 4. Required access to computer?

**Operating/ Maintenance**

<table>
<thead>
<tr>
<th>ID:</th>
<th>Date:</th>
<th>Frequency:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Who operated individual program?</td>
<td>2. ID:</td>
<td>Date:</td>
</tr>
<tr>
<td>3. Details of maintenance personnel</td>
<td>4. Key maintenance personnel with system programs?</td>
<td></td>
</tr>
<tr>
<td>5. Where are old tapes kept?</td>
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<td></td>
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</tbody>
</table>

**Recent activities**

<table>
<thead>
<tr>
<th>Recent activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Who received filing tape?</td>
</tr>
<tr>
<td>3. How reporting requested in computer readable?</td>
</tr>
</tbody>
</table>

**ODPW**

<table>
<thead>
<tr>
<th>ODPW activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Who received filing tape? What entries made on computer record?</td>
</tr>
<tr>
<td>2. How printed?</td>
</tr>
<tr>
<td>3. Check for errors</td>
</tr>
<tr>
<td>4. What level of ODPW reporting is acceptable?</td>
</tr>
<tr>
<td>5. What needs return tape? What level of service?</td>
</tr>
</tbody>
</table>
Pharmacy

What record made by pharmacist when filling welfare prescription? How - welfare prescription?


Check pharmacy, return in? Complete list of genuine welfare prescriptions and corresponding general prescriptions - delete.

Any acknowledgment by do.

ODPW

1. Who receives selling tax?
2. Who edits tape? What evidence used?
3. How print - get tape marks kept?
4. Is print - get edited tape made + keep?
5. What acknowledgment sent to?
6. Who prepares checks?
7. What printed keep of checks sent?
8. Who returns tape to?
9. What contract with individual pharmacists?
10. Which other state agencies continued to individual pharmacies?
11. How many pharmacies direct - tell?
12. Are checks in safeguarded?
13. Who is involved in computer detection of forfake fraudulent selling.

Data in
1. Who received file?
2. How recorded?

Right-hand corner
1. Who got data in pool for machine?
2. Held - with use?
3. Where kept? Access?

Programming
1. Who performed computer analysis? When
2. How maintained program? Here object program? Here object program? Here object program? Here object program? Here object program? Here object program? Here object program? Here object program? Here object program?
3. Held file - buy is entire program?
4. Programmers access to computer.

Operating? Maintaining
1. Who operates? Frequency?
2. Law, operator maintained program?
3. Access of operator maintained program?
4. Law, maintained program with system program?
5. Where are all tapes kept?

1. Who handled telling tape?
2. What needed for telling tape of ODPW?
3. How was telling integrated into account receivable?
4. Who receive communication from ODPW concerning editing?

Account receivable
1. Who receives checks? What else made in company checks?
2. Cash returned?
3. Received? Receivable?
4. Less of ODPW funds of company?
5. What trouble between ODPW + less tapes?
FIGURE 4

Flow of Information through ODPW Computer System: Economic Crime Unit's Notes to Trace Origin of Fraud
FIGURE 4

Flow of Information through ODPW Computer System:
Economic Crime Unit's Notes to Trace Origin of Fraud
To check if provided program is genuine

machine language

object program

linked in to source device

object libraries

working storage of CPU

(output to system)

out-put tape

(printed out)

BDP/1

other computer

out tape or print data.
PROCESSING FLOW: ORIGINAL SUBMISSION
THIRD PARTY CLAIM FORMS AND RESUBMISSI

General Accounting
1. Management Information
2. Store Operating Statements
3. Consolidated P & L Statement

Sales Audit
Weekly Sales Mgt.

Medical Insurance Carrier (F)
Medicaid/Private

Cash Management (G)
1. Deposit Checks in Bank
2. Remittances and Rejects to 3rd Party Accts, Rec.

Checks
Remittances and Rejects

Bank

Medicaid Customer

Revco Store

Central Claims Control (Incoming)
1. Sort Claims
2. Count Claims
3. Forward to "Processing"

Processing (D)
1. Audit Claims
2. Price (where applicable)
3. Record Sales And Credit Store (where applicable)
4. Forward Processed Claims

Central Claims Control (Outgoing)
1. Deallocate
2. Package and Mail (if applicable)
3. File Copy Sent to 3rd Party Receivable

3rd Party Accounts Receivable
1. Paid in Full
2. Paid W/Adj.
3. Pended (Followup)
4. Rejected

FIGURE 5
Processing Flow of Medicaid Claims--
ODPW: Economic Crime Unit Notes
SSING FLOW: ORGINAL SUBMISSION OF CLAIM FORMS AND RESUBMISSION OF REJECTS

1. Medicaid Customer

2. Revco Store

3. Central Claims Control

   (Incoming)
   1. Sort Claims
   2. Count Claims
   3. Forward to "Processing"

4. Processing

   (D)
   1. Audit Claims
   2. Price (where applicable)
   3. Record Sales And Credit
   4. Forward Processed Claims

5. Central Claims Control

   (Outgoing)
   1. Decollate
   2. Package and Mail (to carrier)
   3. File Copy Sent to Accounts
      Receivable

6. 3rd Party Accounts Receivable

   1. Paid in Full
   2. Paid W/Adj.
   3. Pended (followup)
   4. Rejected

7. Professional Services

8. Store/Carrier Contact

9. Reject Determination

   1. Level I
   2. Level II

10. Store and Edit Rejects

11. Level II Rejects

12. 3rd Party Accounts Receivable

13. Carrier Rejects
TO: Executing Officers
FROM: Assistant Prosecuting Attorney
DATE: April 27, 1977
RE: Search Warrant Executions - Briefing

OVERALL COORDINATION

Each executing trooper will maintain liaison with local police authorities and a local prosecutor. If problems arise in the obtaining, executing or return of the warrants, I will be on standby at (614) 462-3343 to offer assistance to you or to the local prosecutor.

Our office should be immediately notified via your normal communication channels at each stage of the operation as it is completed:

1. Upon obtaining the warrant from the court.
2. Upon successful seizure of the prescriptions.
3. Upon filing the return with the court.

WARRANT PROCEDURE

Generally, the following procedure is followed statewide:

1. Go before a judge, swear out the affidavit.
2. You sign each warrant in the appropriate places.
3. Give each warrant to the judge for his signature and make sure he signs each one where appropriate.
4. Have each warrant file stamped by the clerk of courts.
5. Execute warrant, leaving a copy plus inventory return with the pharmacist or store manager.
6. Return to clerk's office, swear out a return and leave a copy of the warrant with the clerk (all warrants should be time stamped).
7. Later, when time permits, send a copy of the warrant with a completed inventory along with a cover letter to the judge who issued the warrant.

Note: check with the local police and prosecutor to see if this general procedure is satisfactory with them.

FIGURE 6

Search Warrant Execution Instructions for Executing Teams: Economic Crime Unit Files
FIGURE 6 (Continued)

INVENTORY PROCEDURE:

A list of the prescriptions sought is attached to your affidavit as Exhibit A. An identical list is provided for purposes of the inventory return and should be attached as Exhibit C to each warrant.

As you "check off" each prescription, mark your initials next to the appropriate number in ballpoint pen. Use carbon paper is possible so as to avoid writing your initials separately on each page.

SEARCH WARRANT DISTRIBUTION

1 - filed with issuing clerk of courts
1 - left with pharmacist or store manager
1 - sent to issuing judge
1 - retained for O.S.H.P. files
1 - Franklin County Prosecuting Attorney

5 total

Note: As a matter of protocol you may wish to make copies for the local law enforcement agency and the local prosecutor's files. But do not give the judge anymore than five warrants to sign.

SPECIFIC DISPOSITION OF EVIDENCE SEIZED

Special instructions as to disposition of property taken will be provided by your superiors. The overall plan is to return the original prescriptions to the stores as soon as they have been copied. For purposes of making a receipt, you may use the O.S.H.P. copy of the warrant and return. Simply have the pharmacist or store manager on duty acknowledge in writing that everything listed on the return receipt, has, in fact, been returned to the store.
REVCO BILLING DISCREPANCY TYPES

1. Numeric transpositions - intra-store
2. Numeric transpositions - inter-store
3. Excessive refills - single prescriber
4. Excessive refills - multiple prescribers
5. Duplicate payment - intra-store
6. Duplicate payment - inter-store
7. More than one drug dispensed under a single Rx number
8. More than one recipient, same drug, single Rx number
9. Single prescription - multiple providers
10. Prescription splitting
11. Same drug - more than one prescription number

FIGURE 7
Revco Billing Discrepancy Types:
Ohio Department of Public Welfare Files
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<th>Sanctions</th>
<th>Number of Pre-Existing Organizational Linkages</th>
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<tr>
<td>S/UR</td>
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</tr>
<tr>
<td>DDS</td>
<td>State Computer</td>
<td>No</td>
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<tr>
<td>OSPhBd</td>
<td>State Investigation</td>
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<tr>
<td>OSHP</td>
<td>State Investigation</td>
<td>Yes</td>
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<tr>
<td>ECU</td>
<td>County Investigation; Prosecution</td>
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<td>Peripheral Organizations</td>
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<td>Auditor's Office</td>
<td>State Surveillance; Investigation; Computer</td>
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<tr>
<td>Attorney General's Office</td>
<td>State Investigation; Prosecution</td>
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**FIGURE 8**

Description of Organizations Relevant to Revco Case
### Figure 9

Resource Exchange
Prior to Revco Case

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<th>ECU</th>
<th>AG</th>
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<td>-</td>
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<td>R</td>
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<tr>
<td>AUDITOR</td>
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<td>R</td>
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<td>O</td>
<td>R</td>
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</tbody>
</table>

**Number of Pre-Existing Organizational Linkages**

| 5 | 5 | 4 | 5 | 2 | 5 | 4 |

**KEY**

- Reciprocal Exchange = R
- Unilateral Exchange = U
- No Exchange = 0
THE EFFECT ON THE PRICE MOVEMENT, EARNINGS, AND PRICE/EARNINGS RATIO OF REVCO DRUG STORES AND OTHER SELECTED DRUG RETAILERS FROM THE 1977 MEDICAID FRAUD INVESTIGATION AND SETTLEMENT

Prepared by
Lynn A. Oberg, Certified Financial Analyst

Introduction To The Drug Retail Industry

As can be seen in Figure 10 (A Comparison Of Financial Statistics For Selected Drug Retailers 1971-1978) this is essentially a homogenous industry in regard to earnings growth, sales growth, operating margins, stock price movements and return on equity. One exception to this is Gray Drug Stores which exhibited a significantly greater earnings decline in 1974 than the rest of the group and has posted slower recovery since that time. By far, Jack Eckerd and Revco Drug Stores are the most dominant industry factors from the standpoint of sales trends, store expansion, magnitude of earnings, and pricing policies. In light of general similarities within the industry, it would certainly seem valid to compare 1977 to early 1978 trends for Revco Drug Stores with those of the companies in the industry to trace the effects on stock price, investor attitude, and earnings from the Ohio Medicaid settlement.

In his research report of November 1976 Jack Balos, research analyst for Banker's Trust Company, New York City, examined the industry's position in the 1960s and mid-1970s. In summation, earnings for the group outpaced sales, creating a general widening of profit margins. The industry had built quite high current ratios (a measure of liquidity) and Mr. Balos did not anticipate any need for external sources such as equity or bond financing through 1978. From the 1967 level through expected earnings
for 1977, the industry averaged a ten-year record of compound sales growth of 7% and a five-year record of 7.7%. Prescription prices increased 4% in recent years (keeping pace with inflation). This figure might have been higher except for the presence of localized price wars and intense competition within the industry. Competition was expected to remain intense, considering rapid store expansion to boost sales volume. At the beginning of 1977 Medicaid prescriptions represented 5% of total sales for most companies.

Earnings of the drug retailers proved to be somewhat recession (or economic cycle) resistant until 1974 when each company experienced at least a slowing of earnings growth (and in the case of Gray Drugs, Revco Drug Stores, as well as Rite Aid, a significant decline in yearly earnings comparisons). Prices and price-earnings ratios of the group declined significantly, paralleling a drop in prices of most growth stocks. (Refer to Figure 11, a graphical presentation of individual prices, earnings, and dividends using Cycligraphs, Securities Research Association, New York City). From these graphs we can see the close correlation of earnings and stock price movements for drug retailers. Again, referring to Figure 11, after the 1974 debacle, few growth-oriented stocks regained their previous, high price-earnings ratios. Such was the case with the drug industry. However, once a resumption of the favorable earnings trend was recognized in 1975-1976, most drug retailer's stock prices rebounded sharply. Then, as was typical of the market in general, those prices consolidated (moved in a narrow trading range) in 1976.

The economic scenario developing for the first half of 1977 (as outlined in a November 1976 research report from Bankers Trust Company and
a December 1976 report from Mitchell Hutchins, Inc.) called for lower inflation rates, with rates increasing by the end of 1977. Both Mr. Robbins, from Mitchell Hutchins, and Mr. Balos, from Bankers Trust (as well as numerous other analysts on The Street) felt that a pick-up in consumer spending in 1977 would transmit into another significant gain in group earnings in 1977 and 1978. For the next five years (1977-82) drug retailer's earnings growth rates were expected to be 12-15% per annum. Most analysts felt, also, that the drug retail stocks were relatively undervalued and had "purchase" ratings assigned to Eckerd and Revco.

1977

During the first quarter of 1977, inflation slowed and consumption patterns developed as predicted. In January, Revco Drug Stores announced that sales for the year ending in 1977 would exceed 1976 levels and on March 10 they reported nine month earnings to be 27% higher on a year to year comparison with 1976. Other drug retailers were reporting similar gains. Stock prices of the group had declined slightly, however, because of a general market decline and due to investor concerns over higher inflation expected to develop in 1978 (as shown in Figure 11).

When the investigation was announced on April 29, 1977, a diverging pattern began to develop for Revco (Figure 11). Volume expanded sharply and the stocks price declined. As reflected in a May 6, 1977 research report by Frederick Kopf, Reynolds and Company, as well as a May 10, 1977 Bank of New York report by Donald Solowe, investors were faced with uncertainties concerning the scope of the fraud and the future magnitude of litigation settlements. Most analysts changed their bullish ratings
on Revco (but not on other drug retailer stocks) and were at this time rating the stock as a "hold." Although earnings estimates did not change during this period most analysts preferred to take a wait and see attitude before again recommending purchase.

As can be seen in Figure 12, the price and price/earnings ratio (an important measure of the market's attitude toward a stock) remained depressed. In Figure 12, we have traced the weekly price and price/earnings ratio ranges and have matched those levels with the progression of publicity and company announcements regarding the litigation and earnings and dividend progress. To the best of our knowledge, no other drug retailers were implicated as also being guilty of fraudulent filings. While the prices of Eckerds, Gray and Rite Aid languished during the second quarter, (refer to Figure 11), we believe that this was more a reflection of the general decline of the stock market during this period.

In July, the two employees were identified and Revco admitted responsibility for the fraudulent filings. On July 30, the company paid a total of $571,521.12 in paybacks and fines. An August 1 article in the Wall Street Journal indicated that this settlement would not have a material effect on annual earnings for the year ended May 30, 1977. In his research report of August 12, 1977 Stuart Robbins, of Mitchell Hutchins noted that the settlement resulted in a $.03 write off to 4th quarter earnings per share (for the year ended May 30, 1977). Since this amount was not material in nature the company did not footnote it separately in either its 1977 annual report or 10-K filed for that period. After announcement of the settlement, the stock's price began to show a slight
upward movement. (Refer to Figure 11.) This trend continued as the company announced an earnings increase for the year ending in May of 1977 and a sales advance of 19%.

An August 16 announcement by the Justice Department denying permission for Revco to acquire six Kroger drug stores in Dayton did not seem to have much of a negative impact on the stock's price; nor did the pending legislation in Ohio which would require possibly heavier fines for corporate fraud or possibly action to prohibit companies convicted of fraud from writing future Medicaid prescriptions.

Beginning in mid-August, numerous favorable research reports on the drug retailers were issued. Although there was some concern, as stated by Stuart Robbins at Mitchell Hutchins, as to the sales/store comparisons for Revco vs. the drug retail industry, most analysts felt that the Medicaid matter was behind the company and analysts began to focus on the undervalued position of most of the drug retailers considering expected earnings gains of 14-15% for 1978. Martin Schwartz at E.F. Hutton and Donald Solowe at Bank of New York both restored Revco to their "purchase" list, as did several other analysts. Although prices of other drug retailer stocks rebounded sharply in the third quarter, the group as a whole moved down slightly in the fourth quarter of 1977 and into the first quarter of 1978 (Figure 11). During this period the price earnings ratio of Revco remained lower than that of either Eckerd or Rite Aid.

1978

As reported by Martin Schwartz of E.F. Hutton (January 29, 1977) earnings for six months were reported to be $.44 vs. $.38 for the previous
year's period on an increase in sales of 17.6%. In January 1978, Mr. Schwartz updated his purchase recommendations for Eckerd, Revco and Rite Aid with expectations of earnings advancements of 13-16% for each of the drug retailers in 1978.

The only somewhat negative report on Revco was issued by Robert I. Roth of Merrill Lynch, Pierce, Fenner and Smith (in February 1978), referencing anticipation of narrower future profit margins from increased price competition, higher labor costs and uncertainty over proposed National Health legislation. The analyst addressed the possibility of a civil suit in connection with the Medicaid fraud case but he concluded that no further litigation would be forthcoming.

In March of 1978 both Jack Balos of Bankers Trust and Martin Schwartz of E.F. Hutton published favorable research reports and reiterated earnings increase expectations of 15-17% for fiscal 1978. Neither analyst mentioned past or possible future litigation in issuing their purchase recommendation.

Beginning with the second quarter of 1977 through the third quarter of 1978, the Dow Jones Industrial Average rebounded by 21% although the index's price earnings ratio remained at approximately nine times 1978 estimated earnings (refer to Figure 11). The drug retail industry outperformed the market during this period with the stock price of Jack Eckerd rising 31%, Gray Drugs 39%, Revco Drug Stores 57.5% and Rite Aid 44%. Revco experienced a significant incremental increase in its price earnings ratio, bringing the company's stock back in line with the price earnings ratios of other drug retailers (Figure 11).
Conclusions

While there was a very sharp, downward reaction of the price and price/earnings ratio of Revco's stock during the second quarter of 1977, once the litigation was settled and good earnings gains were reported in the summer of 1977, the price of the stock rebounded. By early in 1978, the investment community had essentially "forgotten" the incident and the shares had regained a favorable investment status.

As Stuart Robbins, of Mitchell Hutchins, suggested in his report of August 12, 1977, the monetary cost to the company was small and the independent audit (made in connection with the fraud investigation) reaffirmed, in his opinion, the excellent quality of management and good internal controls. Therefore, from a financial, analytical point of view the problem was solved. The company emerged in tact, and no future disruptions could be anticipated. Focus could again be placed on earnings and sales trends.

Sales remained strong through 1977 and 1978, which would indicate that the settlement and admitted wrong-doing had not tarnished Revco's image as a price leader nor did it cause a consumer reaction (such as store boycotts). The fact that wrong-doing was confined to Ohio stores and that, after initial publicity, the rest of the nation was not kept as closely informed of subsequent proceedings may account for the lack of sales disruptions.

On a less financial note, one can conjecture that much of the general populace is aware of the bureaucratic time delays and inherent frustrations of dealing with government agencies (especially the Internal
Revenue Service or the Social Security Administration). It must be noted that the company did not create additional, new claims to receive more money than they were otherwise entitled to receive from the Ohio welfare system. Instead, Revco Drug Stores just altered previously submitted and rejected claim to speed-up what might have been an eighteen month cash flow delay. Further, had the two individuals at Revco profited personally, public reaction may have been longer lasting. Having come through the Watergate Era and numerous media reports of corporate fraud in recent years, the investment community quickly forgave Revco's fraudulent practices.

As a contrast, consider recent stock market and consumer reactions to cases of corporate irresponsibility and fraud involving product safety. In these cases, there has been a more lasting effect on stock price, earnings and sales. One such case would be Firestone Inc., which was forced to recall several million tires because it was judged that they posed a threat to life. Firestone was implicated for fraud because the company was aware of the problem but did nothing about it. Most analysts would agree that the effect on "goodwill" (product image) and the decline in sales may well take a considerable amount of time and advertising expense to dispel. In Firestone's case, the settlement created a material effect on earnings for the 1978 fiscal year. One word of caution is in order in trying to quantify the effect on Firestone, however, because the tire and rubber industry in general has experienced poor sales and earnings comparisons over the past few years.
### EPS DATA (FISCAL YEAR ENDING:)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Compound Growth</th>
<th>1977</th>
<th>Percent Increase</th>
<th>1978</th>
<th>Percent Increase</th>
<th>1971-76 PRICE</th>
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<td>Eckerd (Jack) Corp.</td>
<td>18.1%</td>
<td>$1.98</td>
<td>20.0%</td>
<td>$2.17</td>
<td>9.5%</td>
<td>$30-21 3/8 29 1/8</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gray Drug Stores</td>
<td>6.9</td>
<td>2.33</td>
<td>10.0%</td>
<td>2.58</td>
<td>10.7%</td>
<td>27 1/2 -3 3/8 15 1/2</td>
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<tr>
<td>Fiscal Year</td>
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<tr>
<td>Revco Drug Stores</td>
<td>16.1</td>
<td>1.84</td>
<td>23.5%</td>
<td>2.21</td>
<td>20.1%</td>
<td>26 7/8 -16 3/4 26 3/4</td>
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<tr>
<td>Fiscal Year</td>
<td></td>
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</tr>
<tr>
<td>Rite Aid Corp.</td>
<td>15.3</td>
<td>1.55</td>
<td>38.4%</td>
<td>1.99</td>
<td>28.4%</td>
<td>20 3/3 -13 1/2 20 3/3</td>
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<tr>
<td>Fiscal Year</td>
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1. P/E = CURRENT PRICE
   LATEST YEARS EARNINGS/SHARE
2. OPERATING MARGINS = NET INCOME AFTER TAXES
   SALES
3. RETURN ON EQUITY = NET INCOME
   SHAREHOLDERS EQUITY

**FIGURE 10**

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<thead>
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<td>30-21 3/8</td>
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<td>48-8</td>
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<td>17.6%</td>
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<td>19 3/4 -12 7/8</td>
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<td>12-7</td>
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<td>DIVIDENDS % Increase</td>
<td>% Increase 77-78</td>
<td>Sales Growth (Compound) 1977</td>
<td>Net Sales</td>
<td># Stores</td>
<td>Sales/Income/Store 1971 1976</td>
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<tr>
<td>30% 19%</td>
<td>17.7% 53.8% 15.4%</td>
<td>$980.1 884 $1,108,710 $52,070</td>
<td>4.9%</td>
<td>4%</td>
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<tr>
<td>35 5.9</td>
<td>7.6 12.4 12.6</td>
<td>357.8 221 1,619,004 29,683</td>
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<td>1.9</td>
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<tr>
<td>64 53</td>
<td>16.8 20.3 19.1</td>
<td>792.0 1011 783,412 29,060</td>
<td>3.5</td>
<td>3.7</td>
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<tr>
<td>47 36</td>
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<td>4.1</td>
<td>3.5</td>
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<tr>
<td>1977 Net Sales</td>
<td># Stores</td>
<td>Sales/ Store</td>
<td>Net Income/ Store</td>
<td>Operating Margins</td>
<td>Return on Equity</td>
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<tr>
<td>$980.1</td>
<td>884</td>
<td>$1,108,710</td>
<td>$52,070</td>
<td>4.0% 4.9% 4.7% 4.5%</td>
<td>16.2% 16.8% 16.9% 16.3%</td>
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<td>357.8</td>
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<td>11.9 12.3 12.5 13.0</td>
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<td>792.0</td>
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<td>17.8 18.5 18.9 18.9</td>
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<tr>
<td>590.1</td>
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<td>889,909</td>
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<td>4.1 3.5 3.5 3.8</td>
<td>19.0 16.5 18.0 17.8</td>
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</table>
FIGURE 11

Stock Prices, Earnings Per Share, and Dividends for the Dow Jones Industrial Average, Retail Drug Industry, and Individual Drug Retailers, For 1977 through June 30, 1978
1977 - 6/30/78

Earnings per share & Dividends per share (in dollars)

Price per share

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IQ 'h i j • 46 3 0
t oo V o lu*
2.5 36 34 32 30 28 26 24 22 20 19
t a 1 7 16 15 14 13 12 11 10

Number of shares traded each month (quoted in thousands)

BO .70 .60 .45 .30 .10 .00

1977 - 6/30/78

Price per share

Gray Drug Stores, Inc |

GRAY DRUG STORES, INC.

Price per share

BO .70 .60 .45 .30 .10 .00

1977 - 6/30/78

Number of shares traded each month (quoted in thousands)

Gray Drug Stores, Inc | GRAY DRUG STORES, INC.
Correlation of Price Per Share and Price/Earnings Ratios with Company Announcements and Newspaper Publicity for the Period January 1, 1977 through June 30, 1978
Reeco D.S. announces independent audit

Columbus Dispatch - Pharmaceutical Association cites bureaucratic delays in collecting from medicaid department.

Wall Street Journal - article notes that stock has remained on the most active list. That Friday there had been a volume of 236,600 shares and that stock closed at 15 3/4 up 1/4.
Revco D.S. announces 17% expected increase in sales for year to end 5/30/77.

3/10 Wall St. Journal - 3rd quarter E.P.S. $1.22 up 27% from same quarter in 1976.

5/6 Several Wall Street brokerage firm analysts published reports changing the rating on Revco from a buy to a hold due to uncertainties surrounding the investigation.

5/6 Wall Street Journal - notes that Revco has been on the most active list since the investigation began. On 5/6/79, Revco slid 2 3/8 to 16 7/8. Trading was halted at the time of the announcement and once trading resumed 76,000 shares traded at 16 1/2.

4/29 - 4/30 Columbus Dispatch - articles outlining investigation around fraudulent prescription claims, welfare department suspends claims reimbursements.

4/30 Revco announces that they will cooperate with the investigation.

7/8 Wall Street Journal - identifies two employees involved; trading was halted on 7/7; volume was heavy and price declined 3/4 to 17 1/2. Some indication that price was being held.
<table>
<thead>
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<th>Date</th>
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<td>7/15/77</td>
<td>11.1</td>
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<td>7/22/77</td>
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<td>11/4/77</td>
<td>10.3</td>
<td>10.9</td>
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</tbody>
</table>

### News Articles

**7/30 Columbus Dispatch** - several Ohio legislators propose new law to prohibit medicaid sales or stiffer penalties.

**8/1 Wall Street Journal** - noted that the amount of the settlement won't have a material effect on earnings per share for the year ending 5/28/77.

**8/16 Wall Street Journal** - Justice Department denies permission for Revco to buy six stores in Dayton owned by Kroger.

**3/28 Cleveland Plain Dealer** - resignation announced of one of the Revco executives found guilty of fraud.

**10/3 Columbus Dispatch** - Ohio legislators introduce legislation requiring that state agencies be prohibited from doing business with companies convicted of fraud. Welfare director announces that he opposes such legislation because in Revco's case it would be too inconvenient for medicaid customers to take their business elsewhere. Representative Stinziano said that he would prefer stiff fines rather than taking away the company's ability to do medicaid business.
several Ohio
new law to prohibit
iffer penalties.
- noted that the
ment won't have a
arnings per share
5/28/77.
- Justice Department
Revco to buy six
ed by Kroger.
ler - resignation
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Ohio legislators
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ries convicted of
ector announces that
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ers to take their
Representative
he would prefer
than taking away the
do medicaid business.

7/8 Wall Street Journal - identifies two
employees involved, trading was halted
7/7; volume was heavy and price
decline 3/4 to 17%. Some indication
was given that plea bargaining
discussions were being held.

7/22 Revco D.S. admits responsibility
and states that they may enter into
egotiations for a settlement.

7/30 Revco D.S. announces that they are paying
a 5521,000 settlement and a 50,000 fine;
two employees were convicted of fraud;
welfare department resumes claims
reimbursements.

8/3 Revco D.S. announces earnings per share
for the year ended 5/28/77 equal to $1.84
up 23% from 1.49 for the year ended
5/30/76. Sales were up 19%, 4th quarter
earnings were .62 vs. .53 in 1976 and
included a .03/share write-off for
the settlement.

9/20 Wall Street Journal - Revco acquired a
maker of vitamins for an amount equal to
that company's book value; SEC approves
acquisition.

7/28 Revco D.S. announces 1st quarter 1978
earnings per share of .47 vs. .40.
Company increases dividend from .13
to .16 per share for the quarter.
Representative Stinziano said that he would prefer stiff fines rather than taking away the company's ability to do medicaid business.
LEGEND

X Indicates Newspaper Publicity
Or Analyst Announcements

O Indicates Company Announcements

It he would prefer
t than taking away the
to do medicaid business.
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