AGENCY FAILURE, CORPORATE GOVERNANCE COLLAPSE, AND SYSTEMIC FRAUD: A CASE STUDY OF THE VAN THINH PHAT IN VIETNAM

PhD. Dao Manh Huy*

Abstract: ***The Van Thinh Phat Group scandal involved an unprecedented scale of financial loss, posing a significant challenge to existing theories of management, control, and criminology. This study utilizes an integrated framework encompassing agency, fraud, and behavioral theories to conduct a qualitative case analysis based on legal and financial documentation. The findings elucidate the mechanisms that allowed such misconduct to persist over several decades. The research further identifies a systemic collapse resulting from the intersection of severe agency conflicts and the failure of multi-level control networks. These results offer vital implications for corporate governance and public policy to effectively recognize and prevent similar systemic risks in the future.***

• Keywords: *fraud; agency theory; governance; systemic collapse.*

Date of receipt: 30th Jan., 2026
Date of delivery revision: 28th Feb., 2026
Date of receipt revision: 19th Mar., 2026
Date of approval: 25th Mar., 2026
DOI: https://doi.org/10.71374/jfar.v26.i2.59

1. Introduction

The financial scandal involving Van Thinh Phat Group and SCB Bank has transcended the boundaries of isolated corporate fraud to become a systemic event with negative spillover effects across the entire economy. Extensive financial losses, estimated to represent a significant proportion of the national GDP, alongside direct impacts on tens of thousands of investors, have exposed severe vulnerabilities in corporate governance architecture and national financial supervision. Given its unprecedented scale and complexity, this case provides a unique research opportunity to re-examine the validity and limitations of classic theoretical frameworks concerning financial crime.

At the heart of the matter are allegations that Truong My Lan and her associates manipulated and utilized SCB as a private financial vehicle for over a decade. However, explaining such a comprehensive collapse poses a major challenge to existing academic theories. Fraud Triangle Theory, which focuses on pressure, opportunity, and rationalization at the individual level (Cressey, 1953), appears insufficient to explain a large-scale organized criminal network. Similarly, Agency Theory, while useful for analyzing conflicts of interest between principals and agents (Jensen & Meckling, 1976), struggles to clarify why all layers of monitoring from the board of directors and Big Four auditing firms to state bank inspectors failed simultaneously and systematically (Coffee, 2006).

A key scholarly gap lies in the absence of an integrated analytical framework capable of bridging macro-level failures in governance structures and supervisory institutions with micro-level dynamics such as psychology and individual decision-making processes. Prior research suggests that serious misconduct is often not the result of isolated decisions but is the product of a normalization process for deviant behavior where unethical acts gradually become accepted as standard practice within an organization (Anand et al., 2004). Therefore, this study poses a central question regarding how the resonant interaction between agency failures, structural opportunities, and behavioral biases can explain the emergence, persistence, and extraordinary scale of the fraud at Van Thinh Phat.

The primary contribution of this research is the proposal and empirical testing of a multi-theoretical framework. This framework integrates perspectives from Agency Theory, expanded versions of Fraud Theory (Wolfe & Hermanson, 2004), and behavioral economics. The core thesis posits that in cases of systemic fraud, governance deficiencies at the structural level create unparalleled opportunities. These opportunities are then fully exploited by actors

* *University of Labour and Social Affairs, Vietnam; email: huydaomanh@gmail.com*

with compromised ethics who are supported by a toxic organizational culture (Bazerman & Tenbrunsel, 2011). Consequently, the research aims to develop a Systemic Fraud Analysis Framework. This theoretical tool is essential for analyzing and preventing complex financial risks, particularly within the context of emerging markets characterized by challenging institutional environments (Khanna & Palepu, 2000).

2. Theoretical Framework

To comprehensively analyze a systemic and complex financial fraud such as the Van Thinh Phat case, it is essential to construct an integrated theoretical framework. This analytical structure comprises three primary pillars within the study of corporate crime. These include Fraud Triangle Theory and its extended versions, Agency Theory, and Behavioral Theory. Each pillar offers a distinct analytical perspective that clarifies various facets of the case, ranging from macro-level governance failures to the micro-level psychological motives of individual offenders.

The primary foundation for explaining fraudulent behavior is Fraud Triangle Theory, initiated by Donald R. Cressey, which posits that financial crime occurs at the convergence of pressure, opportunity, and rationalization (Cressey, 1953). However, subsequent complex cases demonstrate that this classical model requires supplementation. Consequently, scholars developed more multifaceted models such as the Fraud Diamond, which incorporates the capability of the offender (Wolfe & Hermanson, 2004). Furthermore, the Fraud Pentagon and later polygonal models integrated factors such as arrogance and collusion (Roffia & Poffo, 2025). Applying an expanded polygonal model is essential because the Van Thinh Phat case clearly exhibits all these elements, from the capability to organize a sophisticated criminal network to widespread collusion among multiple stakeholders.

The second theoretical pillar is Agency Theory, which focuses on the inherent conflict of interest within the relationship between the principal and the agent (Jensen & Meckling, 1976). Core issues of this theory, including information asymmetry and moral hazard, are highly relevant when analyzing governance failures. In the context of this case, the theory provides a sharp analytical tool to dissect the collapse of monitoring mechanisms. It helps explain the failure of the Board of Directors at SCB Bank in their role as agents for shareholders and depositors. Additionally, this theory applies to the failure of independent auditors and the corruption of state regulatory agencies, who serve as agents for the interests of the market and the public (Al-Faryan, 2024).

The final pillar of the framework shifts from structural factors to individual psychological aspects through the lens of Behavioral Theories. These theories suggest that humans do not always make decisions in a purely rational manner. Cognitive biases, such as confirmation bias, optimism bias, and particularly groupthink, can lead to the normalization of deviance within an organization (Langevoort, 1998). This phenomenon helps explain why a large network of individuals could participate in and rationalize misconduct over a prolonged period.

3. Research Methodology

This research adopts a single case study design due to the complex and unprecedented nature of the Van Thinh Phat case. This method is appropriate for an in-depth investigation of a contemporary phenomenon within its real-world context, aiming for analytical rather than statistical generalization (Yin, 2018). Data were collected exclusively from public secondary sources. These sources include official legal documents such as indictments and court judgments, investigative reports from reputable media organizations between 2022 and 2025, and financial statements from SCB Bank.

The qualitative analysis followed a thematic approach using two coding cycles. The first cycle utilized structural coding based on core theoretical concepts. The second cycle applied pattern coding to identify emerging themes (Miles et al., 2020). Scientific rigor was maintained by adhering to established qualitative research standards. Validity was reinforced through data triangulation and pattern matching techniques. Objectivity was ensured by a transparent analytical process that facilitates the verification of findings. Regarding research ethics, this study relies solely on public information and does not interfere with ongoing legal proceedings.

4. Results and Discussion

Empirical analysis based on an integrated theoretical framework reveals that the Van Thinh Phat case reflects a multi-level systemic collapse, operating through tightly linked mechanisms at the macro, organizational, and micro levels. The evidence strongly supports the study's central proposition: The collapse did not originate from a single deviant act but was the product of a cascading interaction,

wherein structural failures at the institutional level facilitated corporate fraud, while psychological and behavioral dynamics at the individual level sustained and amplified the consequences over time.

Foremost, the case challenges the explanatory capacity of the classic agency framework, which centers on owner–manager conflicts. The data reveal an extreme form of agency conflict between ownership groups, consistent with emerging market contexts characterized by highly concentrated ownership and weak investor protection mechanisms (Claessens et al., 2000; Young et al., 2008). Deviating from the normative assumption of decentralized power, actual authority at the bank was restructured through complex proxy and trust arrangements, enabling a single entity to control a majority stake without direct nominal representation. Public disclosures indicate a dominant level of control, thereby shifting the locus of power from the board mechanism to individualized decision-making. This disparity between legal ownership and actual control inverted the principal–agent relationship, hollowing out the representative function of the board of directors and executive management. When the link between management and the collective body of shareholders was severed, the incentive to serve minority interests sharply increased, and asset expropriation became the dominant strategy (Johnson et al., 2000). From a theoretical perspective, this exemplifies the spiraling agency costs that arise when controlling shareholders are not constrained by effective checks and balances, causing the governance equilibrium to shift toward self-serving extraction, no longer optimizing for the welfare of minority shareholders or depositors.

At the organizational level, this eccentric power structure precipitated the degradation of internal controls. Process mapping reveals that key controls in credit approval, risk management, and financial reporting were neutralized by extra-procedural interventions. The tunneling activities were not spontaneous but were operationalized through mechanisms designed to legitimize cash flows, including fictitious credit dossiers, non-independently appraised collateral, and the use of intermediary legal entities to diffuse responsibility. When the approval and appraisal functions were not substantively independent, the capacity for deviation detection sharply declined, and fraudulent behavior transitioned from localized to systemic. Consequently, financial statements were persistently distorted, while cash flows were diverted from core business objectives to serve the related ownership network. This represents a typical state of internal control exhaustion, where compliance norms are superseded by interest-aligned directives, and the control function operates merely as a formal veneer.

When the internal control layer weakened, expectations placed on external oversight mechanisms became critical. However, evidence indicates these barriers failed to perform their intended role (Coffee, 2006). Audit reports for multiple years issued unqualified opinions, even as risk indicators regarding asset quality, liquidity, and credit concentration surpassed warning thresholds. This outcome suggests two non-mutually exclusive possibilities: detection capabilities were limited by deliberate concealment, and professional independence was compromised by economic dependence on a major client (Beattie et al., 1999; Francis, 2004). From a normative standpoint, fee dependence on a dominant client creates an intractable conflict of interest, eroding professional skepticism and lowering the threshold for accepting evidence below the necessary level of diligence. Concurrently, the final oversight instrument from regulatory agencies was neutralized by institutional capture, manifested through systematic bribery and structured interference in inspection activities. With all three lines of defense (internal controls, independent audit, and state supervision) compromised, agency costs accumulated unchecked and metastasized into systemic collapse risk.

To explain how the fraud achieved such scale and longevity, the analysis must extend from the traditional fraud triangle to multidimensional models, such as the fraud diamond and the fraud polygon (Cressey, 1953; Wolfe & Hermanson, 2004). In the research context, the opportunity element approached an absolute state due to the substantive neutralization of the control system. Financial pressure escalated in tandem with the real estate credit cycle, particularly during market corrections, which created incentives to sustain cash flow by expropriating bank resources. The capability of key actors was demonstrated through their ability to design and maintain sophisticated tunneling mechanisms, fragmenting transactions into hundreds of files and legal layers, thereby obscuring the causal link between the source and destination of funds. The arrogance element, a belief in the ability to override controls, was conspicuous, as decisions were made assuming superior power could insulate legal risks at the operational level. The confluence of

these factors created a stable action space for fraud, where detection risk was suppressed long enough for behavioral inertia to form.

At the micro level, behavioral analysis provides an explanation for the persistence of the fraud. The rationale of "saving the bank" not only emerges during the defense phase but also operates as a cognitive mechanism to rationalize decisions within the organization. When a collective continuously makes deviant decisions without incurring sanctions, internal norms shift, and deviation comes to be seen as effective operational practice (Vaughan, 1996). This socialization of deviance is often accompanied by neutralization techniques, wherein actors invoke higher goals to temporarily suspend ethical standards (Sykes & Matza, 1957). Group cohesion, heightened by concentrated power, led to groupthink, silencing warnings and stifling internal dissent. On an individual plane, moral blindness caused the ethical dimension to be excluded from the cognitive frame during complex decision-making (Bazerman & Tenbrunsel, 2011). Concurrently, moral disengagement mechanisms allowed actors to maintain a positive self-image by using euphemistic language, blaming the system, or diffusing responsibility onto the collective (Bandura, 1999). These mechanisms operated simultaneously, creating an ethical gray zone where internal rationality superseded legality, and where psychological barriers to fraudulent behavior were lowered significantly.

Connecting these analytical layers reveals a self-reinforcing loop that initiated and sustained the collapse. In the first cycle, concentrated ownership combined with proxy networks skewed power and disrupted the principal–agent equilibrium. In the next cycle, weakened internal controls and the failure of the oversight system expanded opportunities for fraud and reduced detection probability. In the third cycle, the proceeds from fraud were reinvested to consolidate central power, fund bribery, and further neutralize monitoring mechanisms. In the final cycle, the organizational culture adapted to deviance, forming new norms that rewarded results while ignoring process, thereby stifling internal critique and propagating the behavior. This cyclical chain explains the extraordinary scale and duration of the misconduct, as each cycle created the conditions for the next to operate more effectively. Once the loop stabilized, late-stage policy interventions faced enormous recovery costs.

These findings carry several noteworthy theoretical implications. First, the principal–principal perspective provides a more suitable explanatory framework than the classic agency model in contexts of concentrated ownership and weak protective mechanisms (Young et al., 2008). The study's empirical results show that agency costs arise not only from information asymmetry between owners and managers but also from the abusive power of controlling shareholders over other stakeholders. This expands the concept of agency costs to include organized expropriation mechanisms, where ownership is leveraged to neutralize oversight and divert benefit streams away from the firm. Second, the evidence reinforces the view of the oversight profession (gatekeepers) as a core component of market governance, yet one that is highly vulnerable when facing economic dependence and concentrated client structures (Coffee, 2006; Beattie et al., 1999; Francis, 2004). In such contexts, formal standards of independence are necessary but insufficient, and the economic incentive design for auditors and other assurance providers must be reconsidered to reduce single-source fee dependency. Third, multifaceted fraud models demonstrate that the motivation for fraud cannot be explained along a single axis; it requires networking the elements of opportunity, pressure, capability, and attitude, while linking them to the specific organizational dynamics of emerging markets (Wolfe & Hermanson, 2004).

The governance and policy implications drawn from these results are systemic. Regarding ownership structure, disclosure and monitoring mechanisms for proxy agreements must be tightened to reduce the gap between legal ownership and actual control. For internal controls, the risk management function must be independent in its reporting lines and budget, with direct access to the board and audit committee, bypassing executive management. For auditing, mandatory auditor rotation, client revenue concentration caps, and public disclosure of economic independence indicators should be designed as behavioral guardrails, rather than focusing solely on standards compliance. Regarding state supervision, inspection teams require mechanisms to protect them from interference, systemic real-time transaction data analysis, and the application of anomaly detection based on risk models, reducing reliance on institution-provided records. Finally, organizational ethics programs

should not be mere declarations but must be tied to specific incentives and disciplinary mechanisms, while empowering secure whistleblowing channels that protect informants from retaliation. These measures are significant because they target the links in the self-reinforcing loop, rather than addressing superficial symptoms.

The research also offers a methodological contribution by combining case data with a multi-level analytical framework. This approach permits tracing causal chains across institutional, organizational, and individual layers, avoiding the pitfall of a single explanatory narrative. By triangulating behavioral traces with theoretical propositions, the study reinforces the external validity of the principal–principal framework in emerging market contexts, while establishing the role of the oversight profession as a critical mediating variable between ownership structure and fraudulent outcomes. When combined with behavioral models, the framework clarifies why actors persist in high-risk behavior under escalating risk conditions, and why organizations can adapt to large-scale deviance without self-correcting.

Nevertheless, several limitations must be acknowledged. The case study analysis, while rich in detail, is limited in its quantitative generalizability. The complexity of the proxy agreements and ownership networks means that reconstructing the full chain of control faces the risk of incomplete data. Conclusions regarding micro-level motivations are based on theoretical models and available narratives, making it difficult to completely exclude hindsight bias. Therefore, future research is needed using multi-source data, including legal records, audit work papers, governance information flows, and organizational sociology investigations, to test the generalizability of the described self-reinforcing loop. Another valuable research direction would be the development of a bank-level principal–principal risk index, combining public disclosures on ownership structure, related-party transactions, and client concentration, to provide early warning of such vulnerabilities.

Conclusion

This study examines the Van Thinh Phat scandal through an integrated theoretical framework that synthesizes agency theory, fraud triangle theory, and behavioral perspectives. Findings suggest that the case represents a systemic breakdown rather than an isolated failure. This collapse stemmed from the interplay among three distinct dimensions, including severe structural agency conflicts, the emergence of organized fraud opportunities, and the reinforcement of unethical conduct facilitated by cognitive biases and internal organizational compliance cultures.

Theoretically, this research underscores the necessity of multi-level analytical approaches when explaining systemic fraud. Furthermore, it challenges the direct transferability of Western governance frameworks to emerging market contexts. In terms of practical implications, the study advocates for heightened regulatory scrutiny of ultimate beneficial owners and expanded legal liability for auditors. It also emphasizes the need for boards of directors to achieve substantive rather than merely formal independence.

One limitation of this investigation resides in its reliance on secondary data sources. Future research could adopt comparative international perspectives or utilize quantitative methods to examine the correlation between ownership structures and fraud risks. Subsequent inquiries might also offer more profound explorations of organizational psychological dynamics. Ultimately, the comprehensive decoding of this case facilitates the development of more robust preventive mechanisms for the broader financial system.

References:

Al-Faryan, M. A. S. (2024). Agency theory, corporate governance and corruption: An integrative literature review approach. Cogent Social Sciences, 10(1). https://doi.org/10.1080/23311886.2024.2337893

Anand, V., Ashforth, B. E., & Joshi, M. (2004). Business as usual: The acceptance and perpetuation of corruption in organizations. Academy of Management Perspectives, 18(2), 39–53. https://doi.org/10.5465/ame.2004.13837437

Bandura, A. (1999). Moral disengagement in the perpetration of inhumanities. Personality and Social Psychology Review, 3(3), 193–209. https://doi.org/10.1207/s15327957pspr0303_3

Bazerman, M. H., & Tenbrunsel, A. E. (2011). Blind spots: Why we fail to do what's right and what to do about it. Princeton University Press.

Beattie, V., Brandt, R., & Fearnley, S. (1999). Perceptions of auditor independence: UK evidence. Journal of International Accounting, Auditing and Taxation, 8(1), 67–107.

Claessens, S., Djankov, S., & Lang, L. H. P. (2000). The separation of ownership and control in East Asian corporations. Journal of Financial Economics, 58(1–2), 81–112. https://doi.org/10.1016/S0304-405X(00)00067-2

Coffee, J. C. (2006). Gatekeepers: The professions and corporate governance. Oxford University Press.

Cressey, D. R. (1953). Other people's money: A study in the social psychology of embezzlement. The Free Press.

Francis, J. R. (2004). What do we know about audit quality? The British Accounting Review, 36(4), 345–368. https://doi.org/10.1016/j.bar.2004.09.003

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2000). Tunneling. The American Economic Review, 90(2), 22–27. https://doi.org/10.1257 /aer.90.2.22

Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. The Journal of Finance, 55(2), 867–891. https://doi.org/10.1111/0022-1082.00229

Langevoort, D. C. (1998). Organized illusions: A behavioral theory of why corporations mislead stock market investors (and cause other social harms). University of Pennsylvania Law Review, 146(2), 101–172.

Miles, M. B., Huberman, A. M., & Saldaña, J. (2020). Qualitative data analysis: A methods sourcebook (4th ed.). SAGE Publications, Inc.

Roffia, P., & Poffo, M. (2025). Revisiting the fraud triangle in corporate frauds: Towards a polygon of elements. Journal of Risk and Financial Management, 18(3), 156. https://doi.org/10.3390/jrfm18030156

Sykes, G. M., & Matza, D. (1957). Techniques of neutralization: A theory of delinquency. American Sociological Review, 22(6), 664–670. https://doi.org/10.2307/2089195