

## A road to legitimacy: accusations of fraud in Via Varejo

*Uma via para a legitimidade: o caso das denúncias de fraude na Via Varejo*

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### Keywords

Via Varejo.  
Legitimacy Theory.  
Fraud.

### Abstract

This teaching case addresses the history of Via Varejo S.A. which received reports of fraud and accounting irregularities at the end of 2019. The company appointed an investigation committee to conduct an independent and detailed analysis which found indications of fraud such as the manipulation of labor provisions, undue delays in writing off assets and accounting for liabilities; and failures in internal controls that could have resulted in material errors in the company's accounts. The impact was approximately 1.19 billion reais, which fully recognized in their 2019 financial statements and the reexamination of previous periods was not deemed necessary. Considering this uncertain scenario, managers were faced with the following dilemma: how to behave in relation to society considering the findings of fraud? This teaching case is aimed at students in graduate majors in Administration and Accounting who want to study the assumptions of the Legitimacy Theory as well as analyze the actions of this company as strategies designed to maintain or recover its legitimacy.

### Keywords

Via Varejo.  
Teoria da Legitimidade.  
Fraude.

### Resumo

O presente caso de ensino aborda a história da Via Varejo S.A. que, no final de 2019, recebeu denúncias de fraudes e irregularidades contábeis por meio de sua ouvidoria. A companhia criou um comitê de investigação para conduzir uma análise independente e detalhada. Como resultado, foram encontrados indícios de fraude contábil, caracterizada por manipulação da provisão trabalhista, diferimento indevido na baixa de ativos e contabilização de passivos, e falhas de controles internos que poderiam resultar em erros materiais em determinadas contas contábeis da companhia. O impacto foi de aproximadamente R\$ 1,190 bilhão, reconhecidos integralmente nos demonstrativos financeiros de 2019, dado que se julgou desnecessária a reabertura de períodos anteriores. Diante desse cenário de incertezas e instabilidade, os gestores depararam-se com o seguinte dilema: como se portar perante a sociedade, considerando os achados da investigação? Assim, este caso de ensino é voltado para discentes dos cursos de pós-graduação em Administração e Contabilidade que queiram estudar os pressupostos da Teoria da Legitimidade e analisar ações da empresa como estratégias para manter ou recuperar sua legitimidade.

### Article information

Received: January, 23rd 2023  
Approved: October, 19th 2023  
Published: April, 17th 2024  
Responsible editor: Prof. Elisabeth  
de Oliveira Vendramin

### Practical implications

This case study is aimed at Management and Accounting students, with the objective of fostering debate about organizational legitimacy in a context of accounting irregularities during the Covid-19 pandemic. Such a case helps in understanding the strategies used by entities to gain, maintain, and repair legitimacy.

## 1 INTRODUCTION

From an organizational perspective, the image of a company affects its social legitimacy which is understood to be a “condition or status that exists when the value system of the entity is aligned with the value system of the society which it is a part of” (Lindblom, 1994, p. 2). According to the Legitimacy Theory, this system represents a social contract that consolidates the prevailing beliefs and norms of a given society (Deegan, 2002).

Among the various mechanisms used by companies to project what is considered to be a legitimate image, there is the publishing of information (Dowling & Pfeffer, 1975). In general, companies use specific strategies to release information, especially during times of crisis when it could harm their reputation and commercial relationships (Deegan, 2002). To Oliveira et al. (2020), these strategies can be perceived from the accounting narratives that these companies employ.

Among the various events that can harm the image of an organization, Furio et al. (2021) cite environmental accidents, corruption scandals, involvement in fraud, and other practices which are questionable and/or contrary to the prevailing beliefs and norms of the social contract. To Ribeiro et al. (2019), despite various organizational controls which have currently been implemented, events that demonstrate bad organizational behavior continue to occur and have increased in frequency.

The objective of this teaching case is to encourage debate about legitimacy within a context of accounting irregularities. To accomplish this, we propose analyzing the case of Via S.A (formerly Via Varejo S.A), which faced evidence of fraud and accounting irregularities at the beginning of the COVID-19 pandemic. Founded in 2010 by the merger of Casas Bahia and Ponto (formerly Ponto Frio), Via S.A. (formerly Via Varejo S.A.), is a Brazilian retailer which, with the help of e-commerce platforms and known companies in the sector, has become a specialist in the electronics, appliance, and furniture market. To reach its target audience, Via has a network of over 1,000 stores in Brazil headquartered in São Caetano do Sul, São Paulo. The company has the largest retail logistics network in the country and also operates through multiple channels.

Listed as part of the B3 Stock Exchange’s New Market, Via Varejo S.A. came under the control of the Klein family in June 2019 and is currently made up of various brands such as Casas Bahia, Ponto, Bartira, and Extra.com.br. The company’s digitalization is exemplified by the growing number of users of its brand apps since June 2019. Within this expansion and digitalization process in 2019, Via Varejo also concluded the acquisition of 80% of Airfox, a technology company headquartered in Boston. This acquisition has provided the firm with a digital wallet known as banQi.

At the end of 2019 and the beginning of 2020, the company also began to update its internal regulations and code of ethics. It also changed its brand name<sup>1</sup> in April 2021. This occurred after the release of its 2020 financial numbers (in March 2021), which covered a period of crisis in 2019. As of April of 2021, Via Varejo came to be known as simply Via. The name change was justified by the company’s expansion into other areas in addition to retail (varejo).

## 2 CONTEXT OF THE CASE

### 2.1 “Revising retail” or “revising the numbers”?

In 2019, while Via Varejo went through great changes with a new group in control, as well as new management and strategic positioning, the company received anonymous information about possible fraud and accounting irregularities through its ethics hotline. An investigation began in October of that year and finished in March 2020, and the Administrative Board established an investigative committee to lead the analyses. Independent companies and consultants were hired to help in the investigations, which consisted of three phases. The first phase led to the publishing of a Relevant Fact that did not identify indications of any possible intentional errors or mistakes. However, the two subsequent phases led to the release of further Relevant Facts affirming the existence of irregularities.

In parallel, during 2019 Via Varejo S.A. presented its new market strategy to consolidate its slogan “revising retail”. Various actions were implemented such as a new digital platform, improvements in delivery times, supplier relationships, the attracting of new talent, and improved cash flow. The company appeared often

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<sup>1</sup> Comunicado ao Mercado: Via Varejo muda marca e se transforma em Via, 25 de abril de 2021, disponível em: <https://ri.via.com.br/>

in the media, featuring actions involving soccer sponsorship and novella advertising, customized marketing for television and digital projects specially designed to meet the needs of consumers in various locations<sup>2</sup>. It also financed social and health causes, making donations of approximately R\$ 5.3 million<sup>3</sup> through the Casas Bahia Foundation, the organization's social arm. Had Via found a way to reaffirm itself in the market during this time of uncertainty?

In an unprecedented move, the company released a Relevant Fact on December 2, 2019 regarding the company's sales performance of R\$ 1.1 billion during Black Friday that year. Also during this time, Via Varejo presented a report which highlighted an exponential reduction in the number of consumer complaints about its services and/or merchandise, elevating its customer satisfaction. It also identified technological improvements in its digital platforms and the mitigation of previous system problems, seeking to affirm Via Varejo's focus on resurrecting itself with its strategic planning that year.

### **3 DILEMMA OF THE CASE**

As mentioned above, at the end of 2019 Via Varejo S.A. received an anonymous tip concerning fraud and accounting irregularities within the firm. After its initial investigation, it released its first Relevant Fact concerning this subject on November 13, 2019, in which the company informed society about the anonymous tip it had received and that an Investigative Committee had begun work in October of that year. The committee reported directly to the Administrative Board and was being assisted by independent consultants so that the analyses were performed and conducted by able, independent, and experienced professionals<sup>4</sup>. At that point, no indication of fraud or irregularities had been encountered.

As the investigation progressed, Via Varejo released a second Relevant Fact on this subject on December 12, 2019. On that occasion, the company announced that in the second phase of its investigation indications of accounting fraud had been discovered. The irregularities were linked to manipulation of workers' provisions and erroneous deferrals in writing off assets and the accounting of liabilities, as well as failures in internal controls which could have resulted in relevant material errors in some of the company's accounts. Given these new findings, Via Varejo thought it necessary to extend the Investigative Committee's analysis to a third phase.

It should be emphasized that even in the Relevant Fact published in December, the company published an estimate of the impact of the accounting adjustments that probably would be necessary at that point: R\$ 1.05 billion to R\$ 1.2 billion. In addition, Via Varejo affirmed that the mapping of risks was underway and adjustments of R\$ 200 million related to fiscal credits and other provisions had already been taken into account, bringing the total accounting impact to a maximum of R\$ 1.4 billion.

Finally, on March 25, 2020, days before the release of the Auditing Report for the year 2019, Via Varejo published a final Relevant Fact on this subject. This last communication concluded that there was proof that corroborated the existence of accounting fraud and the internal control failures mentioned in the second Relevant Fact. It also published a final total for the accounting impact of R\$ 1.190 billion, with R\$ 1.169 billion being relative to estimating errors and R\$ 20.8 million due to explicit fraud. These values were recognized as one-off expenses in the Income Statement for 2019 and the previous years received no adjustments<sup>5</sup>.

Given this, Via Varejo found itself in a complex situation in terms of the need to investigate and release the results of the investigation into the accusations while seeking ways to deal with the company's legitimacy in the eyes of society. Thus, the company faced a dilemma: how to assume a proactive role to deal with various possible forms of adversity that could arise with the publication of the results of the investigation? How could it maintain its remaining legitimacy in the view of society within the context of a world pandemic?

### **4 THE CLOSING OF THE CASE**

At the end of 2019, Via went through a turn-around and digitalization<sup>6</sup> process which, according to its administrators, was the strategy understood to be sufficient to help it outcompete its competition. This fact appears to have been the distinguishing factor in the company's continuity in regard to the accusation of fraud and financial irregularities in November 2019, as well as the beginning of the COVID-19 pandemic in March 2020.

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<sup>2</sup> Demonstrações Financeiras Padronizadas de 2019, disponíveis em <https://ri.via.com.br/>.

<sup>3</sup> Disponível em <https://www.cnnbrasil.com.br/nacional/fundacao-casas-bahia-da-via-varejo-doa-um-total-de-r-5-3-milhoes-contra-crise>

<sup>4</sup> Fato Relevante: Via Varejo – Investigação Independente, 13 de novembro de 2019, disponível em: <https://ri.via.com.br/>.

<sup>5</sup> Fato Relevante: Via Varejo – Conclusão da Investigação Independente, 25 de março de 2020, disponível em: <https://ri.via.com.br/>.

<sup>6</sup> Fato Relevante: Nova Proposta de Chapa para nosso Conselho de Administração, 20 de abril de 2020, disponível em: <https://ri.via.com.br/>.

According to the administrators of Via Varejo, its digital transformation made it possible to stage a great turn-around in the company's growth and profitability. The company managed to reverse the decreasing number of visits to its online channels, and beginning in September 2019, these visits increased by over 50%<sup>7</sup>. Heavy investments were made in technology, and Via Varejo's brand apps appeared among the Top 3 best-ranked apps.

Furthermore, with the suspension of in-person service due to the COVID-19 pandemic and the search for new methods of communication to face this health crisis, Via Varejo began to organize live transmissions which enabled them to convey more information and foster greater proximity to users and consumers during the pandemic. The company established a schedule of videoconferences with at least 14 official events featuring the participation of the company's executives as well as live transmissions almost every day in an informal manner on social media platforms.

To the leaders of Via, the success of this strategy was confirmed by its winning the 2020 Best Follow-On in Latin America award at the Latin Finance Awards<sup>8</sup>. Thus, the company ended 2020 turning a R\$ 1 billion loss from the previous year into a R\$ 1 billion profit.

The teaching notes will be made available to professors who send an email to the *Revista de Contabilidade e Organizações* requesting the full content.

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### How to cite this paper

Serpa, S. A. F. A., Freitas, J. B., & Guerra, M. (2024). A road to legitimacy: accusations of fraud in Via Varejo. *Revista de Contabilidade e Organizações*, 18:e207174. DOI: <http://dx.doi.org/10.11606/issn.1982-6486.rco.2024.207174>

<sup>7</sup> Comunicado ao Mercado: Aquisição e Compra de ações da Airfox/banQi, 07 de fevereiro de 2020, disponível em: <https://ri.via.com.br/>.

<sup>8</sup> Comunicado ao mercado: Via Varejo vence o LatinFinance Awards 2020, 29 de janeiro de 2021, disponível em: <https://ri.via.com.br/>.