



Corporate Security and Investigation

White Collar Crime: The Facts

Life with all its pressures such as food prices and fuel increases, increased sale targets, drug and gambling addictions, life style maintenance, serious illness can all lead to an individual committing a crime which they may never have contemplated.

Corporate Confidential Solutions



Forensic and Risk Management Services

What is White Collar Crime?

Nonviolent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semi-professional and utilizing their special occupational skills and opportunities; also, nonviolent crime for financial gain utilising deception and committed by anyone having special technical and professional knowledge of business and government, irrespective of their occupation.

Types of White Collar Crime

- **Embezzlement** - the taking of someone's property by a person to whom it is entrusted.
- **Bribery** - is the payment or promise of financial reward to another to either commit or omit an act which may affect the outcome of a critical process.
- **Computer crime** - making use of a computer to commit crime
- **Environmental Law Violations** – no adherence to environmental law such as the illegal disposal of toxic waste, building developments without environmental impact studies, traffic configurations without legal impact studies, adverse impacts on indigenous vegetation and animal life
- **Extortion** - also known as blackmail, normally to obtain financial benefit through the threat of embarrassment, loss of a professional position, loss of a contract and similar activities.
- **Fraud** - to obtain financial or other benefit through misrepresentation, forgery or false declarations which prejudice or cause loss to another.
- **Price Fixing** - an agreement between two parties to set prices for a certain product, thereby violating free market operations.
- **Racketeering** - the extortion of money by force or a pattern of criminal activity committed to further the interests normally of a criminal syndicate.
- **Theft** - involves taking property without permission with the intention to deprive the legal owner of permanent ownership.

Many aspects of White Collar Crime may be attributed to corporate or internal company crime.

Is your company vulnerable to White Collar Crime?

With the advent of corporate governance, increased legal impact, investigative and auditing capabilities, there is fewer leniencies of white collar or corporate crimes.

It has been found that companies of today are taking steps to prevent internal crime and this includes issuing the responsibility of preventing it to the director, management and individual employees.

The courts have too responded to the onslaught by bestowing harsh sentences upon guilty perpetrators who loose more than their freedom with dispensation orders to recover the loss from the seizure of property, motor vehicles, luxury boats and other valuables.

The media has exposed numerous cases of white collar crime, multi-million dollar fraud investigations, to even individual accountants dipping their proverbial fingers into the cookie jar. From this corporations have realised the damaging effects of these crimes not only to their reputation but also to their earnings and business effectiveness.

With all this positive input and momentum, behind which remains a sense of self assurance and security that a company, government organisation or institution will not be effected by white collar crime. Both individuals and organised crime syndicates have merely adapted their strategies of perpetration to avoid controls, prevention and deterrence mechanisms and usually pounce when the company is vulnerable in believing it is safe from this phenomena.

Corporate Espionage and Electronic Surveillance

The most misunderstood threat of the business world.

Corporate espionage and electronic surveillance is not restricted to unscrupulous competitors it is also utilised by foreign governments, terrorist and organised crime groups who probably have the biggest budgets to carry out espionage activities. In the latter case this often potentially also impacts on the safety of company employees.

Industrial espionage has reached astronomical proportions and in short, is the collection of confidential information through illegal means such as theft, covert listening devices, compromised computer networks, recruitment of employees involving bribery and corruption, collection and sifting of refuse, interception and acquisition of financial information, product sabotage and misrepresentation.

Anyone can be a target of either surveillance or espionage as long as they have some form of influence and have the power to change course of certain activities they may be ideal candidates for kidnap groups for extortion as in Nigeria, Mexico and Columbia, or may be a threat to a competitor or organisation.

The technological era has exasperated the problem for example the 2003 fraud case involving a cyber criminal who penetrated the IT security system of South Africa's largest bank ABSA and successfully perpetrated 10 counts of fraud by accessing client accounts and removing funds before being apprehended.

The reality is, one successful act of espionage against a company compromises many aspects of security and inflicts havoc.

Discovery of White Collar Crime

Systems and procedures are not always adequate.

Many companies continue for years without an incident of fraud, theft or even financial misrepresentation ever been discovered or reported. This does not mean that there is no internal crime or fraud taking place.

Whilst most businesses have controls and systems in place to prevent crime and importantly to discover them timeously when they occur, however, the biggest obstacle in this process is the reliance on the human element to identify the symptoms of crime and when systems have been broken during the perpetration.

This further exasperates the notion that many companies believe that their systems and controls are adequate to discover internal or white collar crime.

This task is often left to auditors to discover these untoward activities which unfortunately is not an ideal solution due to limitations of audits, this results in inadvertent discoveries which are often too late and the damage is vast.

The damage may be enormous.

No one ever predicted the collapse of Enron in the United States and if anyone was asked to assess the damage of an Enron collapse it would have been classified as impossible. Fraud and financial misrepresentation both aspects of white collar crime, was the root cause to the collapse

As with predicting the Enron collapse most corporate executives water down the potential adverse effect of white collar crimes on their organisations or for that matter, themselves. This is further obscured by the fact that in the majority of situations insurance may recover the direct loss but does not cover the secondary loss of for example; cost of investigations, legal costs, stock reduction, human resource process in the case of dismissals, system and procedure realignment.

Not all companies are able to claim or substantiate their loss to recover from insurance policies and to a lesser degree are losses recovered from the perpetrators. Theft and fraud losses often compound the problem as they lead to higher insurance premiums.

All through this process the potential damage to reputation is often ignored and this can impact on share prices, consumer confidence and customer loyalty, continual media attention, the staff morale may be negatively effected. The real fact is; damage resulting from internal crime snowballs with devastating consequences.

The risk of white collar crime is real.

Simply put, where there is money and influence; fraud and economic crime can manifest itself. Corporations have committed large financial resources to projects, to improve their position in local and international market places, but this can attract corruption, theft, fraud, infringement of intellectual property rights and even physical threats such as robbery. While there original structure was strong enough to prevent threats or there was no exposure to it, once operations commenced elsewhere the threat dramatically increased.

In our experience, we have seen amongst our clients even those with the best controls, they still suffer from some form of white collar crime.

It is unfortunate that this is the case with management becoming complacent and placing any form of criminal risk into denial combined with the fact that the lack of crime having effected the organisation in the recent past, the belief remains their organisation will escape white collar crime risks.

Legal Compliance

Legal and ethical compliance still has holes.

South Africa saw the introduction of the King II recommendations which has been adopted in numerous African countries, legislation and other ethical acceptance. United States saw the introduction Sarbanes-Oxley Act, Europe and other international countries have similar examples, while companies have themselves introduced internal mechanisms and awareness programmes in the attempt to implement anti-crime strategies.

The introduction of these processes are highly commendable and verified by external auditors, it is believed that no additional measures are required in deterring crime. All this compliance sets a standard towards which an organisation should focus, it does not alone, prevent any form of criminal activity.

There will be weak spots which are exploited by the criminal. It is therefore, important that any organisation with a desire to reduce any form of loss has to continue with ongoing evaluation of its crime risk exposure and testing of its anti-crime strategy.

Exposed Risks

Many exposed risks are ignored.

Many companies remain focused on cash losses through their cash collection points or asset misappropriation through their dispatch department or obvious areas where the risk exposure is well known and has been identified. This tunnel vision approach unfortunately ignores many other exposed risks where losses are not detected resulting in significant financial harm.

In turn all good intended processes, controls and systems implemented to prevent internal crime become undone.

It is important that an analytical approach is taken to all crime risks to identify prevalence such as financial and information manipulation, statement fraud, corruption in the purchasing department, ghost employees on the payroll system, inflated expense claims, irregular use of company property and other often obscure criminal risks.

Employee integrity does waver.

Management is often shocked when suddenly a trusted employee is exposed to have been responsible for a continued loss in the company. This is exasperated when the guilty employee was placed in a position of trust which included authority, discretion and influence as a necessary requirement for the position which was completely and totally destroyed once a crime has been discovered.

Human resource management is often seen very closely with asset management as numerous companies and institutions place an extremely high importance in both caring and investing in their employees. This pride leads to enhanced rewards of promoting employees, increasing their profile and responsibilities which continue over a long period of time further creating the impression the employee can be trusted. This also leads to increased autonomy where the employee learns to circumvent internal control but more detrimental, their method of concealment when they commit a crime.

In our experience the vast majority of internal crime is committed by employees and those acting in collusion with outsiders is a close second. According to research it is a further fact that management employees who have been in a management position for more than 2 years are often responsible for large scale internal crime.

White Collar Crime Prevention

How does your organisation measure?

Many organisations believe that they have implemented sufficient counter measures to prevent white collar crime, the reality is, it is an ongoing process and requires constant monitoring and action. This includes:

- The identification of white collar crime signs such as internal theft, misrepresentation of facts or financial information, false payments or under delivery of stock.
- Areas of risk, identifying vulnerable areas that could be susceptible to theft and fraud for instance, and where a risk is identified are there corresponding counter measures or controls to prevent the risk becoming an actual loss.
- Motivation in the organisation, what deterrence factors have been provided to personnel to prevent or disclose white collar activities, what do the organisation's values include in reporting misdemeanours.

As one of Africa's premiere providers of forensic investigation, security consultancy and risk management, we have the capability to review vulnerable areas in your company and implement strategies to combat it.

Our associates and consultants are recruited based on a stringent selection criteria while we also maintain a network of professional consultants capable of responding at short notice.

Our capabilities have overlapping similarities to provide our clients the benefit of one professional package, while still having the option to select any individual services.