Petters group worldwide petters company inc critical thinking example

Business, Company

Application of Framework of COSO and Enterprise Risk Management to Petters Group Worldwide/Petters Company Inc. case

Petters Group Worldwide / Petters Company Inc. was a fraudulent Minnesotan investment company that was transformed to one of the greatest Ponzi schemes by its then C. E. O, Tom Petters. The scandal cost about $3. 65 billion. This was mainly conducted through the sales of promissory notes to willing investors. In 1988 the company began a general brokerage business which traded, with outrageous discounts, close out and bankrupt company merchandises. The company would sell these merchandises to dominant retailers in the market like Wall Mart. The payments were made to a lock box account with a requirement for manufacturers or the source of goods to be paid upfront upon delivery to retailers. Petters, the Petters Group C. E. O acted as a middleman and found investors to finance the deals and to whom he issued promissory notes to investors that hand long maturity periods accumulating the amount of money withheld. Petters made-up purchase orders from retailers to get funding from hedge funds which collapsed at with paper in their hands as the only security for their millions long gone. This paper serves to illustrate the importance of internal assessment frameworks that investors should have to avoid scams such as this.

The main reason for the occurrence of the Petters scam can be attributed to a lack of proper risk management and monitoring on the part of the industry regulators. Capital utilization monitoring for organizations with a large base as the Petters Group Worldwide / Petters Company Inc. is also crucial as it could be an indicative factor for likely fraud. The principal goal of using ERM in a situation like this is to provide assertion to an entity that its business objectives are achieved. The COSO framework could be used to evaluate the likely performance of a business model in the future, had such a framework been used, investors would prevent such a scam from happening if not cushioning themselves from its effects.

The framework could play a critical internal regulatory role such as in aligning risk appetite and strategy, highlighting and management of potential risks, hastening and management of decision on how to respond to risks, derogation of surprises in changes f operation and losses, and timely uptake of opportunities which is crucial for appropriate capital deployment. By employing these crucial principles of the frameworks investing companies can know what to expect and how to deal with the situation as it arises. As in the case of Petters, the investors would know what was brewing. They would be in a position to raise an alarm or fold before the situation had escalated.

Reference

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