Example of essay on prevention of corporate white collar crimes 4

Business, Employee

Executive summary

In recent years, a lot emphasis has been put on the various types of corporate or white collar crime. This report analyses various methods of preventing white collar crimes. The report discusses various types of white collar crimes and how they are committed. It also illustrates some of the schemes often used to commit these crimes and their consequences. Finally, the report discusses steps that can be used to prevent white collar crimes. Mainly, the purpose of this research is to help employers understand the significance of the global effort to develop more durable businesses. It also illustrates ways of managing risks of corporate crimes and also raise awareness of these crimes to the general people and organisations. White collar crimes affect the nation’s economy and prosperity and also could destroy the careers of individuals who are involved in these crimes. When an organization suffers from frauds, its cost of production rises and in the process it reduces the profit of the organization. This reduces capital formation in these organizations, reducing their rate of employment. These crimes also reduce the credit available to these organizations. This makes it hard for investors to obtain credit.

White collar crime is a crime on property for personal or organizational gain. The culprits of these crimes are individuals who are employed in legitimate organizations. They are wealthy, highly educated, have high social status and are highly respected in their organizations. They commit these crimes in the course of their occupation. White collar crime can also be defined as the violation of law committed by someone using his/her an occupational authority to commit financial crime. One common feature of white collar crime is that it remains hidden indefinitely. Individuals committing these crimes tend to conceal themselves, and they always try to cover their tracks. Therefore, an organization must have a credible and updated internal control system to curb these crimes effectively. Scholars have alienated white collar crimes into two types: occupation and corporate crimes. Corporate crime is committed by an individual for the organization’s gain. Occupational crime is committed by an individual for their own gain.

In the recent past, cases white collar offenses have increased especially in the USA. The table below shows the cases that have been witnessed in the USA from 1990 to 2009(see in table 1. 1 below). The challenge facing many the USA government is the prevention of these crimes.

Table 1. 1 Arrests Reported in UCR for Three “ White-Collar” Offenses, 1990–2009, U. S. Department of Justice available online.

Prevention of corporate white collar crimes

Two theories have been formulated to explain how to prevent corporate white collar crime: deterrence and compliance theory.

Deterrence theory

This theory focuses on preventing individuals from committing crimes based on fear of their consequences. This theory argues that individuals are deterred from committing crimes by the fear of being of being victimized. According to Coleman (p. 37), the theory is based fear of conviction that is imposed on individuals by the harsh rules. The theory argues that corporate executives can be deterred from committing crimes by the harsh punishment given to other offenders. Harsh convictions can deter individuals from committing similar offenses in the future. Application of this theory in an organization can deter people from committing corporate crimes. Organisations can adopt this theory as it can be effective in preventing corporate crimes.

Compliance theory

This theory argues that the regulatory bodies should encourage individuals to comply with the law rather than relying on criminal prosecution to prevent corporate crimes. The theory suggests that the prosecution should be the last option in an organization's quest of preventing crime. The regulatory bodies are charged with the responsibility of preventing the crimes. In this theory, argues that the regulatory bodies should be competent enough to combat corporate crimes.

Economic impact on white collar crimes

White collar crimes have caused losses in terms of money, merchandise, negotiable instruments. A larger percentage of losses are for merchandise(see figure in figure 1. 1 below) as compared to money and negotiable instruments.

Figure 1. 1 Property loss associated with white collar crimes based on value.

Installing an internal control system

An internal control system consists of policies and procedures put in place to safeguard an organization’s assets. It ensures reliable accounting and increases efficiency within the organization. An effective internal control system restricts unauthorized persons from accessing sensitive and valuable information. Secret passwords can be used to restrict individuals from accessing information from the computer. These passwords ensure that only the authorized people can access information from the organization’s database. Internal control can also include restricting people from accessing buildings that contain valuable assets. This can be implemented by physically locking the assets under lock and key hence preventing their deterioration. According safeguarding the assets also involves indirect restriction of access to the assets. This means that access to the assets should be through authorized documentation. This ensures that all documents within an organization are accessed by the authorized persons only.

Doing background checks

Background checks should be made to all employees before hiring. This involves checking past employee records to ascertain the employee’s competence. This checks also helps the organization to check if the employee has a criminal history. This will ensure that all employees being recruited have a clean criminal record. It will also reduce chances of occurrence of any white collar crime within the organization. Eliminating employees with past criminal records will discourage the employees with clean criminal records from engaging in any fraudulent activities.

Investing in IT security

In the recent past, white collar crimes have been in the form of Hacking. Cyber criminals hack into an organization’s network and steal valuable information. Hacking cases have been on the rise not due to an increased number of hackers, but due to lack of technological know how of curbing them. Any organization should invest heavily on IT security. As advancements in technology increase, so is technology based crimes. An organization should strive to curb these crimes as they can lead to loss of valuable information. Investment in IT also ensures that there computers are protected from viruses which destroy information. Cyber criminals design computer viruses with the aim of destroying or stealing information in organizations' web sites. The main aim of investing in technology is to curb these crimes.

Creating system checks

Any organization should have a system put in place that requires people to sign-in when reporting to their places of work. This will ensure that the organization keeps a record of people entering and leaving the workplace. In case of any missing information, the organization is able to know who to hold responsible. The sign-in system can also be used when people borrow any valuable office equipment. This will help any organization to keep track of every equipment that leaves the office.

Various processes of preventing crime (see figure1. 1 below) have been used to reduce white collar crimes with positive results. According to, prevention of crimes will lead to reduction of fraud leading to improved accounting performance and improved stock price performance.

Figure 1. 2 Operational governance mechanisms, fraud reduction and firm performance.

Financial statement frauds

The most expensive type of internal fraud is the financial statement fraud. This is because the manipulation of financial statement often causes losses of millions of dollars. This kind of fraud is difficult to detect as compared to other types of fraud, as managers and executives may be colluding to alter financial record. A lot of emphasis has been put on financial statement frauds by the business community, accounting profession, academicians, and regulators due to its contribution to the recent economic downturn.

Prevention of Financial statements frauds

In order to prevent financial statement fraud, an organization should have strong and effective internal control. Effective internal control provides employers reasonable assurance that operations of the company are efficient and effective. For example, an organization with a strong internal control will always check their recorded transactions for accuracy, financial report for reliability and their risk management systems for effectively. Moreover, they will check if the company complies with all the laws and regulations and internal policies. (Lendez and Korevec, p. 52). According to

Lendez and Korevec, “ studies have shown that organizations with positive control environments are less vulnerable to fraudulent financial reporting.”

Secondly, organizations should reduce the pressure on the employees. Pressure on employees to get short term results is one of the main causes of these frauds. If there is too much pressure to perform, employees will try to do things in unconventional and sometimes. Therefore, in order to prevent fraudulent behavior, the company’s financial goal has to be realistic (Wells, p. 337).

Thirdly, an organization should have external and internal auditors to detect and prevent frauds. Internal auditing is meant to ensure that the company is recording transactions correctly on an ongoing basis and in accordance with company policy. With the presence of an external auditor, financial statements are thoroughly examined to ensure that they are accurate. This process, in turn, would prevent financial statement scheme in the organization. (Lendez and Korevec, p. 52-53).

Another important measure that can prevent financial statement fraud is the segregation of duties. This ensures that more than one person in the company is handling certain financial information. For instance, for the cash accounts, duties like signing checks, posting them in the accounting system and reconciling the bank statement should be assigned to different people. This control prevents embezzlement. This type of segregation can be spread throughout the accounting department (Lendez and Korevec, p. 52). Wells, like Lendez and Korevec, suggests that in order to reduce financial fraud, an organization should divide its workload among employees in different sectors (Wells, p. 337).

Finally, financial statement frauds are committed by people within the company. Someone usually high up in the organizational structure commits or allows these frauds to occur for various reasons. Therefore, the best way of preventing these frauds is giving employee strong value of moral leadership. In fact, employees take their lead from the heads of the departmental heads(Wells, p. 337). Moreover, the employer could reduce financial statement fraud by hiring honest employees and training them on ways of preventing frauds(Lendez&Korevec, p. 53).

Conclusion

White collar crimes have been on the rise in the recent past. These crimes have been a huge challenge to infant organizations in their quest for expansion. These crimes increase the organization’s costs and hence minimizing their profits. Many organizations have tried many methods of preventing these crimes. Some of the methods I have discussed above have yielded positive results. The goal of all organizations is to maximize profits. These frauds have been a constant obstacle in their quest of achieving this goal. Therefore, many organizations have sought to reduce white collar crimes and in turn increase their profits. White collar crimes must be prevented at all costs in order to reduce costs incurred by the organization.

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