

Actions on Suspicion of White-Collar Crime in Business Organizations: An Empirical Study of Intended Responses by Chief Financial Officers

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White-collar crime can be defined in terms of the offense as well as the offender. Defined in terms of the offense, white-collar crime means financial crime against property for personal or organizational gain. Defined in terms of the offender, white-collar crime means financial crime committed by upper class members of society for personal or organizational gain. These individuals are wealthy, highly educated, and socially connected, and they are typically employed by and in legitimate organizations. This paper reports results from a survey of chief financial officers (CFOs) who were asked what actions they would take on suspicion of white-collar crime in the organization. Survey results indicate that the majority of CFOs would communicate and inform others rather than start investigations themselves.

Key Words: Financial crime • white-collar crime • CFO • whistle blowing

The most economically disadvantaged members of society are not the only ones committing crime. Members of the privileged socioeconomic class are also engaged in criminal behavior. The types of crime may differ from those of the lower classes and include lawyers helping criminal clients launder their money, executives bribing public officials to achieve public contracts, and accountants manipulating balance sheets to avoid taxes. Another important difference between the two types of offenders is that the elite criminal is much less likely to be apprehended or punished due to his or her social status (Brightman, 2009).

The term *white-collar crime* expresses different concepts depending on perspective and context. In this research, white-collar crime is defined as financial crime committed by white-collar criminals. Thus, the definition includes characteristics of the crime as well as the criminal. Financial crime generally describes a variety of crimes against property, involving the unlawful conversion of property belonging to another to one's own personal use and benefit, more often than not involving fraud but also bribery, corruption, money laundering, embezzlement, insider trading, tax violations, cyber attacks, and the like (Henning, 2009). Criminal gain for personal benefit seems to be one of the core characteristics of financial crime.

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This paper is concerned with the following research question: *How will the chief financial officer (CFO) react when suspicion of white-collar crime emerges?* Results from a survey of CFOs in Norway are applied to answer this research question.

Literature Review

White-collar crime such as fraud, theft, and corruption occur within business companies (Acquaah-Gaisie, 2000; Toner, 2009). Company board and top management are responsible for preventing such crime (Aldama, Amar, & Trostianki, 2009; Baer, 2008) as well as avoiding becoming involved themselves.

White-collar crime can be defined in terms of the offense, the offender or both. If white-collar crime is defined in terms of the offense, it means crime against property for personal or organizational gain. It is a property crime committed by non-physical means and by concealment or deception (Benson & Simpson, 2009). If white-collar crime is defined in terms of the offender, it means crime committed by upper class members of society for personal or organizational gain. These individuals are wealthy, highly educated, and socially connected, and they are typically employed by and in legitimate organizations (Hansen, 2009).

Defined in terms of both perspectives, white-collar crime has the following characteristics:

- White-collar crime is crime against property for personal or organizational gain committed by non-physical means and by concealment or deception. It is deceitful, it is intentional, it breaches trust, and it involves losses.
- White-collar criminals are individuals who are wealthy, highly educated, and socially connected, and they are typically employed by and in legitimate organizations. They are persons of respectability and high social status who commit crime in the course of their occupation.

Edwin Sutherland introduced the concept of white-collar crime in 1939. According to Brightman (2009), Sutherland's theory was controversial, particularly because many of the academicians in the audience fancied themselves as members of the upper echelon of American society. Despite Sutherland's critics, his theory of white-collar criminality served as the catalyst for an area of research that continues today.

Brightman's (2009) definition of white-collar crime differs slightly from Sutherland's. While societal status may still determine access to wealth and property, Brightman argues that the term white-collar crime should be broader in scope and include virtually any nonviolent act committed for financial gain, regardless of one's social status. For example, access to technology, such as personal computers and the Internet, now allows individuals

from all social classes to buy and sell stocks or engage in similar activities that were once the bastion of the financial elite.

In Sutherland's definition of white-collar crime, a white-collar criminal is a person of respectability and high social status who commits crime in the course of his occupation. This definition excludes many crimes of the upper class, such as most cases of murder, adultery, and intoxication, as these are not customarily a part of their business procedures (Benson & Simpson, 2009). It also excludes lower class criminals committing financial crime, as Brightman pointed out (2009).

What Sutherland means by respectable and high social status individuals is not quite clear, but we can assume in today's business world he would mean business managers and executives. They are for the most part individuals with power and influence that is associated with respectability and high social status. Part of the standard view of white-collar offenders is that they are mainstream, law-abiding individuals. They are assumed to be irregular offenders, not people who engage in crime on a regular basis:

Unlike the run-of-the-mill common street criminal who usually has had repeated contacts with the criminal justice system, white-collar offenders are thought not to have prior criminal records (Benson & Simpson, 2009, p. 39).

When white-collar criminals appear before their sentencing judges, they can correctly claim to be first-time offenders. Therefore, very few white-collar criminals are put on trial, and even fewer upper class criminals are sentenced to imprisonment, which is in contrast to most financial crime sentences among financial criminals appearing in the justice system who are not wealthy, highly educated, or socially connected.

White-collar criminals are not entrenched in criminal lifestyles as common street criminals. Although they are typically individuals employed by and in legitimate organizations, according to Hansen (2009), individuals or groups that commit occupational or elite crime do so more for their own purposes or enrichment, rather than for the enrichment of the organization on a whole, in spite of supposed corporate loyalty.

In a business setting, white-collar crime constitutes a significant challenge to the communication climate within a company. To what extent does relevant information reach CFOs and other decision makers in advance and while the crime is being committed, and to what extent do relevant facts reach CFOs and other decision makers after the fact? Typically, white-collar criminals are protected from being reported upon by others in the company who may be aware of the crime—especially subordinates who are afraid of the personal consequences. The threshold for bringing forward incriminating evidence is usually quite high. People who communicate their suspicions about such individuals may

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do so at considerable personal risk to their careers. In the aftermath of the Enron case, such actions were labeled CLAs, short for Career Limiting Activities. Companies who are eager to receive information about white-collar crime thus need to create a communication climate in which employees can report such matters with limited risk of repercussion. When interpreting the data from this study, we also take into account what they convey about the risk involved in bringing forward information about possible white-collar crime.

Methods

The five hundred largest business companies in terms of annual sales were identified in Norway for our empirical study of white-collar crime. These companies employed, on average, 1,100 persons. A paper letter was mailed to the chief financial officer (CFO), asking him or her to fill in the questionnaire found on a website, which the CFO could access by using a password in the letter. Initially, 50 respondents filled in the questionnaire, representing a response rate of 10%. After a reminder was mailed to the sample, 61 more respondents filled in the questionnaire, for a total of 111 respondents, representing a response rate of 22%. In addition, there were 28 incomplete responses, thereby creating a total response rate of 28%.

The survey research was carried out from January to March 2010. The average number of employees in the CFO-responding companies is 1,671 persons. The largest company that had a CFO response has 30,000 employees. All letters were mailed to the CFO, and most of the respondents were CFOs, but some were CEOs and financial controllers.

The average age of respondents was 46 years, and they had on average 4.8 years of college and university education after high school. Most respondents were men; only 19 women were among the 111 respondents who completed the questionnaire.

The open-ended question in the CFO questionnaire about actions on suspicion of white-collar crime was formulated as *How will you proceed on suspicion of white-collar crime in your company?*

A total of 91 respondents provided answers to this open-ended question. As stated earlier, there were 28 incomplete questionnaires, and 111 usable questionnaires. We consider usable questionnaires to be all responses where the quantitative parts were completed. Here in the qualitative part, only 91 responses were provided. Responses were classified by applying content analysis (Riffe & Freitag, 1997). In the first round of questionnaire text reading, the author identified potential topics and clustered them into the following three main actions:

1. *Investigation.* On suspicion of white-collar crime, the CFO will initiate investigations.
2. *Confrontation.* On suspicion of white-collar crime, the CFO will confront the suspect.
3. *Communication.* On suspicion of white-collar crime, the CFO will inform others.

Results

Examples of investigation statements respondents provided include:

- Check available documentation for transactions and contracts.
- Collect evidence, then proceed to confrontation.
- Start by investigating locally, then escalate the case depending on relevance.

Examples of confrontation statements respondents provided include:

- Confront person directly.
- Confront person and possibly file police report.
- Fire person and report to police.

Examples of communication statements respondents provided include:

- Contact chairman of the board or external auditor.
- Contact executive management and, possibly, external advisor and police.
- Inform compliance leader and, possibly, board members.

Among the initial responses of 45 completed questionnaires, the following distribution was identified:

- 16 of 45 respondents would investigate the case, thus a rate of 36% for investigation.
- 2 of 45 respondents would confront suspect, thus 4% for confrontation.
- 27 of 45 respondents would inform others internally and/or externally, thus 60% for communication.

Among the 46 completed questionnaires received after the reminder, the following distribution was identified:

- 18 of 46 respondents would investigate the case, thus a rate of 39% for investigation.

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- 1 of 46 respondents would confront the suspect, thus 2% for confrontation.
- 27 of 46 respondents would inform others internally and/or externally, thus 59% for communication.

Because the changes from the initial responses to the responses post-reminder are marginal, we conclude that non-respondents would tend to provide the same answers; therefore, we assume that the total sample would end up in a distribution where (1) most prefer the action of communication, (2) some prefer the action of investigation, and (3) few prefer the action of confrontation.

Among the total of 91 respondents who provided responses to the open-ended question of actions, the total distribution is as follows:

- 34 of 91 respondents would investigate the case, thus a rate of 37% for investigation.
- 3 of 91 respondents would confront the suspect, thus 3% for confrontation.
- 54 of 91 would inform others internally and/or externally, thus 59% for communication.

It is interesting to note that very few of the respondents related their response to a specific white-collar crime, and the questionnaire did not identify particular types of white collar crime. Furthermore, it is interesting to note that most respondents formulated their response so the organization is the victim rather than the offender.

Discussion

White-collar crime is not as visible as conventional crime and detection is difficult. For instance, in a homicide case, there is generally a body and forensic evidence. In the case of financial crime, Hansen (2009) argues that accounting and computer forensics are currently the investigators' best tools in detection and are implemented in most white-collar investigations in recent years. Applications of science and technology to white-collar crime cases is increasing, and advances in technology have led to a greater dependence on expert testimony in white-collar crime cases, keeping in mind that expert opinion cannot be given with absolute certainty.

Perhaps, Hansen (2009) argues, due to the financial resources elite individuals and corporations who are brought to justice have available to defend their cases combined with an aversion to negative publicity, plea bargaining prior to charges is more intense compared with that in conventional crime cases. Formal charging is more likely to be viewed as a failure by prosecutors because of the larger number of resources prosecutors

must divert to prosecute white-collar crime cases. (Prosecutors have to be capable of handling top-level lawyers paid by white-collar criminals in the backroom.) Also due to the greater stigma attached to jail or prison time for elites, these individuals may be reluctant to negotiate a plea bargain if incarceration is included in the deal. On the other hand, it is not unusual for convicted defendants to decide suddenly to cooperate in investigations to receive leniency at sentencing.

Regulation played a major role in the waves of white-collar crime that have struck many developed economies. During the 1980s, deregulation in many countries led to creative financial schemes, some legitimate, but others clearly criminal. Insider trading was rarely investigated or prosecuted by regulatory agencies, even though it was and is illegal. Deregulation is viewed as a culprit in allowing bad accounting practices, including the practice of hiding losses or debts, as in the case of Enron, as well as overstating profits and assets. Regulation in response to major corporate crimes is like closing the barn door after the sheep have all escaped. It is a difficult task to rein in malfeasance, particularly if the monetary reward continues to outweigh sanctions (Hansen, 2009).

According to Hansen (2009), self-regulation does not appear to be a solution either. Much of evaluation, either by external groups or internally, is ceremonial. For example, managers at a technology company may have only a rudimentary knowledge of chemistry, biology, or computers, employing technological experts to do the core work of the company. In other examples, a conflict of interest exists, as in the case of Arthur Andersen, which served as both auditor and paid consultant to Enron. In addition, certifiable standards have not proved successful. One reason is the frequent disconnect between certification and consistent compliance.

Self-regulation in terms of private policing of economic crime does not appear to be a solution either. Williams (2005, pp. 193–195) identified five barriers to this kind of governability:

1. *Secrecy, low visibility, and discretionary justice* lead to informal negotiations, easy termination, loose coupling between investigations and formal legal frameworks, and potential privileges for some individuals but not others.
2. *Multiple legal standards and forum shopping* lead to legal and procedural standards that tend to vary on a case-by-case basis, depending on the specific legal avenue or forum that is selected.
3. *Multiple legal actors* with distinct credentials and qualifications apply a variety of different professional and quasi-professional codes, standards, and obligations.

4. *Multiple stakeholders and interest groups* tend to have conflicts of interest. However, to speak of accountability and governance, one is inevitably required to adopt a particular point of view.
5. *Public-private dichotomy* leads to a liberal legal tradition, where the distinction between public and private remains an enduring feature of legal thought. It hinges on two related principles that bear directly on the activities of internal investigators. The first is that corporations enjoy the same legal rights as individuals and are thus defined as private legal actors. The second is that fundamental limits to the authority and jurisdiction of the state preclude unnecessary interventions and incursions into the private realm.

Similar to both Hansen (2009) and Williams (2005), Schneider (2006) studied privatizing economic crime enforcement by exploring the role of private sector investigative agencies. A financial investigate agency refers to an accounting-based, private sector organization that provides investigative, risk management, consulting, and litigation support services addressing economic crime. Schneider found that in addition to having significant potential in fighting crime, privatization has the danger of complicating law enforcement (2006).

A special kind of self-regulation is self-protection, where protection potentially is achieved by educated actors. An example is investor protection by weaknesses of initial public offerings (IPO). Solaiman (2009) argues that it is generally understood that investment knowledge empowers investors to protect themselves from the culpability of issuers, their professionals, and intermediaries who are called gatekeepers. Investors' ability to make prudent investment judgments for allocation of resources is regarded as an important element in every market economy.

Private policing of financial crime will have to build on organizational justice as perceived by organizational members. Scott, Colquitt, & Paddock (2009) found that a quarter century of research on organizational justice has revealed a great deal about how employees react to justice rule adherence and violation on the part of their managers. Employees evaluate justice along a number of dimensions: fairness of decision outcomes, fairness of decision-making processes, adequacy of explanations, and perceived sensitivity of interpersonal communication.

These dimensions are part of what Rodell and Colquitt (2009) call anticipatory justice: distributive justice, procedural justice, informational justice, and interpersonal justice. The effects of anticipatory justice have been explored in the context of organizational change. Change is a natural component of employees' working lives, and employees may experience a variety of changes during their organizational tenure, ranging from large-scale

changes in the form of organizational relocations or mergers to new policies such as fringe benefit bans.

As part of their research on anticipatory justice, Zapata-Phelan, Colquitt, Scott, and Livingston (2009) studied procedural justice and intrinsic motivation among employees. What stands out most from the results of their study is the significant relationship between procedural justice and intrinsic motivation. The relationship was supported by using a self-report measure as well as reference motivation to both specific tasks and multifaceted tasks in terms of overall job duties. Such relationships tend to influence the role and performance of financial investigative agencies.

Schneider (2006) recommends that public policies and programs be developed that nurture an increased and more formal role for financial investigative agencies within the context of a partnership with government agencies. In Norway, a public debate in the media indicated that the role of financial investigative agencies should be reduced and more resources should be made available to the police (Føler meg rettsløs, 2009).

Receiving relevant and reliable information about white-collar crime is a considerable challenge within the business community. The white-collar criminal normally enjoys a higher degree of social protection than the ordinary, blue-collar criminal. The threshold for bringing forward information about a possible criminal act is higher due to the powerful social position of the criminal. Thus, there is a great need to develop a communication climate where even this kind of information is brought forward.

Conclusion

Fifty-four of 91 responding CFOs in Norway would inform others internally and/or externally about the occurrence of criminal activities within the organization; thus 59% of respondents would choose the option of communication rather than investigation or confrontation. Whether this is the "right" or "wrong" reaction certainly depends on the situation. For example, in cases of corruption and fraud, communication seems to be a more relevant and certainly more responsible option because the CFO does not have direct access to evidence. In other cases, such as fake invoicing and accounting manipulation, the CFO should probably choose investigation, because the CFO has direct access to evidence. Future research might explore such a contingent approach to actions on suspicion of white-collar crime in business organizations.

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