ADDRESSING CRIME IN COMPANIES

First Findings from a Global Survey of Economic Crime1

KAI-D. BUSSMANN and MARKUS M. WERLE*

Economic crime was examined in a global survey of more than 5,500 companies. This survey combines information on companies, company victimization and on the detection and processing of 2,900 incidents of economic crime. Results show that economic crime is widespread and risks are underestimated by companies. Approximately half of the perpetrators were company insiders, with senior/top management being particularly over-represented. Companies are developing a number of control and prevention strategies to cope with the risks of economic crime. Nonetheless, the most frequent response worldwide is not to bring criminal charges, particularly against perpetrators from within the company. Companies’ reactions are often motivated by minimizing the loss of reputation, which results in privileged treatment for both internal and high-status economic crime offenders.

Methodology

Between May and September 2005, we asked more than 5,500 companies worldwide about their experiences with economic crime, how they control and prevent it, and how they respond to actual cases. Findings reported here are based on a combined dataset from two simultaneous studies partly conducted in collaboration between the Economy & Crime Research Centre and PricewaterhouseCoopers International. The collaborative study (n = 3,600; PricewaterhouseCoopers 20052) focused on trends in the prevalence of economic crime as well as control and prevention measures. The second study by the authors (n = 1,900) examined the impact of the German and (US) American criminal justice systems on the control and prevention practices of companies. Because the use of these practices is more widespread and advanced in the United States, we were particularly interested in innovative trends in Germany due, for example, to a knowledge transfer from the United States.3 This second study used the same set of items as the collaborative study and included a number of additional questions. This article presents combined findings from both studies, which both also yielded in-depth information on a total of 2,900 criminal cases. Managers in both studies were asked to select the two most serious offences that their company had suffered in the

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2 Alongside the internationally staffed editorial board, Steven Skalak (New York), Claudia Nestler (Frankfurt), James Parker (London) and Steffen Salvenmoser (Frankfurt) from PwC were particularly involved in this survey.

3 The study ‘Crime Prevention and Intervention in Corporations’ was funded by the German Volkswagen Foundation. Aside from the survey, we also analysed business ethics documents and guidelines on company procedures for dealing with suspects; in addition, we carried out 100 interviews with top managers of German companies.
recent past, and to provide further information on detection, causes, processing of the
crime, characteristics of the offenders, and alleged causes for them.

The target persons selected for the victimization surveys received advance notice of
the telephone interviews. The data for the collaborative study were collected in a stand-
ardized computer-assisted telephone interview (CATI) of company managers in 34
countries. National selections of companies were multi-layered random samples taking
into account, such as the number of employees, annual turnover, the industry sector as
well as business rankings (e.g. Forbes) and listings on the major international stock
exchanges. In some segments of smaller national economies, like Tanzania or Kenya,
this was sometimes almost a complete census. Information on companies was gathered
through data mining in several international databanks. Although the 34 participant
nations were selected to provide a global overview, only small numbers were available
for detailed analyses within some individual regions (e.g. Africa: \( n = 175 \) companies;
Australia: 101; South and Central America: 334). Merging the two studies therefore
had the advantage that data from other regions and particularly Western Europe
(3,038 companies of which 1,512 came from Germany alone) and North America
(694) could be analysed in much more detail.

Interviews were carried out in either the native language or English with those target
subjects who claimed responsibility for crime prevention and detection in their com-
pany. These managers were selected in advance from several public and private data
banks like Hoppenstedt, the internet and other publications, and their responsibility
for economic crime was checked when screening for the interview.

Almost half of these managers worldwide (53 per cent) were members of the execu-
tive board or the management of a company, and 43 per cent worked mainly in the
field of finance as Chief Finance Officer or directors of financial departments. Twenty-
five per cent of companies worldwide were major international companies with more
than 5,000 employees. However, more than one-third of respondents also came from
smaller companies with fewer than 200 employees on the national level. As a result, the
sample is representative of top companies worldwide, and represents a mixture of
industry branches and company size structure, both in the global overview and individ-
ually in most of the regions.

Risk Perception and Prevalence of Economic Crime

Companies were asked to report on seven types of economic crime perpetrated against
them by internal or external offenders:

- asset misappropriation (e.g. theft, embezzlement);
- false pretences (i.e. deception);

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4 Data were collected by TNS Emnid. Interviewers received special training and were provided with handouts particularly detail-
ing the offences.
5 Not all sources of information were available in each of the 34 countries.
6 For the global analysis, national data were assigned to five differently sized sample classes on the basis of national gross domes-
tic product (GDP) and weighted accordingly.
7 If responsibility or the organization had changed, a list of potential departments and posts in the company was used to find the
final target person (e.g. CEO, CFO, Head of risk management, Head of human resources department).
8 Due to the wide range of different legal terms worldwide, we used standardized definitions of offences (see Appendix 1).
• financial misrepresentation (accounting fraud or manipulation);
• corruption and bribery (e.g. ‘kickbacks’),
• insider trading;
• money laundering; and
• counterfeiting (including product piracy, industrial espionage).

Throughout the world, nearly every second company (45 per cent; see Figure 1) reported having been a victim of one of these seven types of economic crime during the last two years (2004/05). This replicates the findings of other recent studies on the same subject (e.g. Ernst & Young 2003; KPMG 2003; PricewaterhouseCoopers 2003; Control Risks Group 2002).

Figure 1 shows major differences between single regions and nations. These can be attributed to three main reasons:

1. Real variations in crime rates, perhaps assisted by differing ‘techniques of neutralisation’.
2. Cultural/national differences in managers’ openness in discussing even those economic crimes committed against them.
3. Only successful control and detection systems in the companies can pick up on the misconduct, and there may be national/regional differences in detection.

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9 The survey asked about offences committed by internal and external offenders against the company, but not for corporate crimes committed by the company. This includes, for example, the acceptance of bribes for sales that put their own company at a disadvantage.

10 Original question: ‘How many incidents of economic crime has your organization been subject to over the past 2 years in ... [own country]?’
Because the number of control and detection measures in African companies was below average, their high detected economic crime rate (77 per cent) may be accompanied by a comparably high undetected rate as well. In contrast, the high Australian (63 per cent) and North American (54 per cent) economic crime rates probably also reflect their higher number of control and detection mechanisms. Multivariate analyses support this hypothesis, showing that the number of control and detection measures was one of the most powerful explanatory variables for the detection of economic crimes. Companies that reported no victimization possessed significantly fewer control and security measures, but they also estimated their risk of becoming a victim of economic crime as being far lower.

In contrast to most regions worldwide, there was a conspicuously lower rate of reported economic crime at 32 per cent in Asian countries, with Singapore (16 per cent), Hong Kong (22 per cent), Malaysia (23 per cent) and Japan (37 per cent) making major contributions to the number of cases. Moreover, the reported financial impact of cases of economic crime in Japanese companies, in terms of financial losses (33,000 US dollars) amounted to only a fraction of the reported international average of 2 million US dollars, so that these were disproportionately ‘petty’ crimes. In Japan, 71.4 per cent of frauds were reported as being below 10,000 US dollars, whilst, globally, 23 per cent were in this category, and most of the offenders in Japanese companies were reportedly from lower ranks of staff (see below). We assume that this finding in Japan (and in Asia in general) can be attributed to less willingness on part of the subjects to report economic crime or, at least, to a stronger inclination to avoid defining such offences as economic crime and also to deal with them informally (see, also, Pontell and Geis 2007 and the section on coping strategies below).

Victimization from corruption and bribery globally ranked fourth on the list of victimizations at 11 per cent, together with financial misrepresentation.14 Higher victimization rates worldwide were only reported for asset misappropriation (30 per cent), false pretences (22 per cent) and counterfeiting (12 per cent). Insider trading (4 per cent) and money laundering (3 per cent) tended to be rare from the perspective of companies. For corruption, reported victimization rates varied greatly from between 1 and 3 per cent in Hungary, Italy, Japan, Singapore, Spain and Switzerland to about 30 per cent in the African nations, the Czech Republic, Indonesia and Russia. The mean level was 12 per cent in Asia and 7 per cent in Western Europe (see Table 1). Asian companies suffer more from corruption, although Japan stands out, with its rate below average.

11 We asked respondents about 15 control and prevention measures, and whether they had been established in the company or not. These included, for example, ‘corporate security’, ‘internal/external audits’, ‘risk management (concerning fraud)’ and ‘forensic analysis techniques’. From this information, a sum score was computed for each company, and respective aggregate measures for countries and regions. These categories are broadly defined, and give little guidance as to how tightly operationally the measures were applied. Enron might have employed all of these, or said that they did.

12 In the following discussion, we focus on Asia, because other than for Africa and Australia, the high number of participating Asian countries and companies, respectively, allows for more regional differentiation.

13 These are average sums of financial losses from all reported incidents of asset misappropriation, false pretences and counterfeiting that a company has suffered during the last two years. Losses due to corruption, insider trading, financial misrepresentation and money laundering were not surveyed because these would have been hard for interviewees to estimate.

14 See definition in Appendix 1. According to this definition, corruption does not imply in every case a financial loss for the company, but in many cases, they experience damage in other forms, such as bad or overpriced services or goods from suppliers, due to the elimination of any real competition.
Table 1  Corruption worldwide

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Australia</th>
<th>S &amp; C America</th>
<th>North America</th>
<th>Asia and Pacific</th>
<th>Western Europe</th>
<th>C &amp; E Europe</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Hong Kong</td>
<td>India</td>
<td>Japan</td>
<td>SE Asia</td>
</tr>
<tr>
<td>Corruption rate*</td>
<td>31</td>
<td>15</td>
<td>12</td>
<td>9</td>
<td>15</td>
<td>20</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Corruption perception**</td>
<td>30</td>
<td>7</td>
<td>30</td>
<td>9</td>
<td>18</td>
<td>31</td>
<td>15</td>
<td>25</td>
</tr>
</tbody>
</table>

* % of companies; ** percentage of companies, multiple answers.
The Corruption Perception Index of Transparency (CPI) provided the opportunity for external validation of our respective findings. In our survey, the correlation between victimization through corruption (prevalence rate) and managers’ perceptions of corruption and bribery as the most prevalent economic crime risks in their own country\textsuperscript{15} was highly significant at $r = 0.63$. We tested the external validity of this finding by correlating our prevalence rates with Transparency International’s Corruption Perception Index of 2005. This was of similar size at $r = -0.65$, and since our own perception measure was strongly related to the CPI,\textsuperscript{16} our survey with both prevalence and perception measures is clearly in line with those that form the basis of the CPI. Therefore, we assume that companies’ perceptions of general victimization risks through corruption and bribery may be more valid than the low regional rates that result from their reporting of these crimes. The rather strong correlation between perception and actual victimization, however, shows that the latter reflects the general problem as it is perceived. We cannot be sure whether this extends to other types of victimization as well, but would not rule out such a possibility. Regional characteristics also need to be taken into account when assessing the validity of the prevalence measures. With regard to the level of corruption perception in our study as well as in the CPI, Japan is on the same level as North America and most Western European countries. According to the CPI, many other Asian countries reveal even higher rates, suggesting that the low level of corruption reported in this and other surveys is inaccurate. There are several indications that the actual economic crime rate in Asia is unlikely to be lower than in North America and most Western European countries (see Transparency International 2005; for Japan in particular: Pontell and Geis 2007).\textsuperscript{17}

A comparison of this survey with a previous one in 2003 shows that, globally, there has been an average increase in economic crime of 8 per cent since then (PricewaterhouseCoopers 2003). One major reason for this may well be the trend that more companies throughout the world are arming themselves with prevention and control mechanisms (Ernst & Young 2003; KPMG 2003; PricewaterhouseCoopers 2003), and, as a result, the increase might have been to a considerable extent caused by higher rates of detection.\textsuperscript{18} The increasing sensitivity in companies has certainly been encouraged by media reports on spectacular cases of economic crime such as Enron and WorldCom (Friedrichs 2004\textsuperscript{b}). With the reinforcement of publicity campaigns by non-governmental organizations (NGOs) such as Transparency International, public opinion now seems to be taking certain forms of economic crime increasingly more seriously (Rebovich and Kane 2002: 7–9; European Commission 2004). In addition, law enforcement authorities, national legislators (overviewed in Friedrichs 2004\textsuperscript{a}: 218–41) and international organizations such as the World Bank, the United Nations, the OECD and the International Monetary Fund have been alerted and mobilized.

\textsuperscript{15} Question: ‘Which type of economic crime would you consider to be the most prevalent in business in [own country]?’ Corruption and bribery were named as the most prevalent types of economic crime in, for example, South and Central America (30 per cent) and Central and Eastern Europe (29 per cent; see Table 1).

\textsuperscript{16} This correlation is negative because high indices in CPI stand for low levels of corruption. As to be expected, the correlation between our ‘perception measure’ and the CPI 2005 was also very high, at $r = -0.93$.

\textsuperscript{17} Another aspect is that private companies do not yet perceive corruption problems as applying to themselves as much as to administration and government. Although the CPI did not distinguish between the private and public business sectors, it is obvious that corruption is about exchanges that often involve both business and government.

\textsuperscript{18} As causes of a real increase globalization, increased competition, the great number of technical innovations and changing values have been named (see, e.g., Friedrichs 2004\textsuperscript{b}; Nelken 1997; Shover 1998: 155–7).
The selection of cases and further information on how these were handled within the companies allowed for detailed analyses and comparisons on how companies had discovered about their victimization. More than 95 per cent of all investigations into these cases worldwide were not instigated by law enforcement authorities but by internal and external tip-offs or by accident (36 per cent). Generally, the companies themselves detected the perpetrators, as the proportion detected by law enforcement agencies is only 4 per cent (see Figure 2). Law enforcement authorities were more active in countries and regions with less well developed risk awareness and internal audits, and, accordingly, a lower willingness on the part of the companies to tackle economic crime as, for example, in Asia and also Central and Eastern Europe. In Japan, reported economic crimes were detected disproportionately more often by law enforcement authorities (22 per cent). In North America, in contrast, authorities played only a minor role, with involvement in 1.5 per cent of the cases. There are two possible reasons for these differences. First, with their low willingness to report economic crime (see above), Asian companies tend to report only cases they consider to be, in any case, public knowledge, in our survey as well as to authorities. Second, our data indicate that North American companies have more control systems in place than the global average, and

Fig. 2 Means by which economic crime was originally detected

Paths to Detection

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Question: ‘How was the case initially detected?’ The list of response categories included a variety of control and security measures as well as the items ‘internal tip-off’, ‘external tip-off’ and ‘by accident’.
probably a very high detection rate. Consequently, they are generally the first to detect economic crime through their internal mechanisms of control.

Whistleblowing systems are of particular interest. Even if only 4 per cent of all cases are detected through such systems, installing a whistleblowing system provided companies with an important source of information. Worldwide, companies with whistleblowing systems tend to have higher detection rates; however, it cannot be resolved whether this was due to the whistleblowing system or to a generally higher awareness in these companies (that motivated them to adopt whistleblowing systems). Whistleblowing systems had a different impact on the detection of different types of crime. They proved to be most effective for detecting corruption and bribery, but insignificant for money laundering and illicit insider trading. In Australia, whistleblowing systems were reported to have detected all cases of reported corruption compared with 50 per cent in India, 25 per cent in the United Kingdom and 25 per cent in the United States (global: 15 per cent). Comparing companies which have implemented a whistleblowing system with those which have not shows that whistleblowing seems to substitute for external or internal tip-offs as well as accidental detections. This is supported by a detection rate for corruption through tip-offs or by accident of 18 per cent in companies with whistleblowing systems compared with 50 per cent in companies without.

Notwithstanding such indications of a beneficial impact, a considerable minority of company managers expressed some dissatisfaction with the system (see Table 2). A pivotal weakness is the lack of protection for the ‘whistleblower’. Our survey in the United States and Germany showed that only approximately 15 and 9 per cent, respectively, of internal and external tip-offs were anonymously processed. Only 63 per cent of companies in the United States and 34 per cent in Germany reported having completely secure protection in place, regardless of whether informants used a whistleblowing system or not. Improving the protection of informants might considerably increase the utility of these sources of information and uncover more of the tip of the iceberg of undetected crime.

Profile of the Perpetrators

Information on the perpetrators was collected as part of the inquiry into the two cases of victimization of which in-depth reports were given by the subjects. Little more than half of the offenders (52 per cent) came from the company’s own staff and management. In the global survey, the only sector significantly deviating was financial services, in which 34 per cent were internal and 64 per cent external perpetrators.

Back in 1949, Edwin Sutherland used high social standing as part of the definition of white-collar crime—a notion that has given rise to much misunderstanding with which we are not concerned here. Our study showed that in fact, high social status is a consistent characteristic of offenders across cultures (Figure 3). Eighteen per cent of identified perpetrators worldwide belonged to the senior/top management and 25 per cent to the middle management of their company. A total of 18 per cent had postgraduate qualifications and 34 per cent a first academic degree. With hardly any national variations,

20 The much stricter legislation following Enron and WorldCom has probably also contributed to this (see, e.g., the Sarbanes Oxley Act 2002). For details on surveying control and prevention measures, see footnote 11.

21 According to our survey results from the United States and Germany, less than 3 per cent of companies in both countries reported any resistance to the introduction of whistleblowing systems.
Table 2  *Frequency of whistleblowing systems*

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Australia</th>
<th>S &amp; C America</th>
<th>North America</th>
<th>Asia and Pacific</th>
<th>Western Europe</th>
<th>C &amp; E Europe</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present in the company*</td>
<td>49</td>
<td>61</td>
<td>47</td>
<td>74</td>
<td>26</td>
<td>52</td>
<td>77</td>
<td>34</td>
</tr>
<tr>
<td>Detection of serious offences**</td>
<td>8</td>
<td>2</td>
<td>3</td>
<td>10</td>
<td>0</td>
<td>19</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>(Very) Satisfied with**</td>
<td>61</td>
<td>65</td>
<td>66</td>
<td>79</td>
<td>32</td>
<td>67</td>
<td>52</td>
<td>61</td>
</tr>
</tbody>
</table>

* % of companies; ** percentage of companies with whistleblowing systems.
perpetrators of economic crime had an above-average education. These results show that although economic crime is not committed exclusively by elites, senior/top management is overrepresented. Further, globally, common characteristics were gender (male) and age of the offenders. The average age was at about 40 years, and only 22 per cent were under the age of 30. From the age of 30, the risk of offending increased continuously with career advancement until about the age of 50. The proportion of women was 13 per cent.22

Moreover, the financial loss and collateral damage (loss of reputation) due to economic crime increased with the perpetrator’s status in the company. Throughout the world, companies emphasized the greater risk of serious damage to reputation and impaired business relations when a perpetrator had been entrusted with a highly responsible post.

**Reported Causes of Crimes and Motives of Offenders**

The crimes of economic elites are attributed particularly to a lack of moral awareness (Coleman 1998: 181–3; Green 1997: 248–9; Simon and Hagan 1999: 136–7). Research has shown that these offenders are risk seekers (Wheeler 1992) and also very decisive, strongly career-, success-, publicity-oriented (see, for overviews, Simon and Hagan 1999; Löw 2002) and extroverted personalities (Coleman 1998). These are precisely the ‘achiever’ traits so highly valued in management recruitment and development (Steinmann and Schreyögg 2000; Shover and Hochstetler 2006: 57–72). Managers

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22 Further results from the survey in the United States and Germany show that economic offenders had worked for their company for an average of 6.5 (United States) or 10 years (Germany), and had held the same post for about 4.5 or 8 years, respectively.
need to be particularly creative and flexible, and both personality traits are equally advantageous for illegal and legal business (Coleman 1998). We asked our subjects to expand on the reasons that they thought had been important in committing the offence; they were presented with a list23 including ‘expensive lifestyle’, ‘denial of financial consequences for the company’, ‘overriding responsible staff’, ‘easy to tempt’ or ‘lacking awareness of values or wrongdoing’. In order to examine connections with and involvement in an organizational and management milieu that condones such acts (Coleman 1998: 187; Sutherland 1949), we also included ‘internal collaboration (collusion) with other employees or members of the management’ and ‘collaboration (collusion) with external parties’.

According to social bond theory (Hirschi 1969), a climate of distance and anonymity in a company may increase the probability of fraud, whereas the formation of strong attachment to a company will provide a degree of protection. Social psychological studies on equity point to the crime-facilitating impact of disappointment and unfairness (Greenberg 1990; Marcus 2000: 107–12). Research on procedural justice shows that for individuals, being treated fairly is often more important than a positive outcome (see Tyler 1990). We therefore included company-related reasons such as ‘occupational/career disappointment’, ‘dissatisfaction with the company’, ‘anonymity in the staff/management’, ‘layoff/redundancy’ and ‘differing foreign business customs/ethics’.

When naming the most frequent individual reasons for economic crime, more than half of all companies worldwide (53 per cent) reported that offenders lacked any awareness of wrongdoing, and half (50 per cent) gave low resistance to temptation as a reason. Forty-four per cent attributed economic crime to insufficient controls and security measures within the company. This was a global pattern of our findings, with hardly any regional variation. If only offenders from within the company are taken into account, individual attributes and motives were mentioned in 38 per cent of all cases, and insufficient controls on the part of the company itself gained in importance (46 per cent). In addition, offences were attributed to internal and external collaboration/collusion (28 per cent). Managers reported that perpetrators frequently did not work alone; several others were involved or at least knew what was going on—suggesting the impact of a general organizational culture. Managers assigned with 12 per cent a comparatively minor—though not insignificant—role to various other company-related reasons.

Table 3 reports the categories of alleged reasons for different management levels. The reasons given for senior/top managers clearly differed from the other levels. The crimes were more frequently attributed to their personal high status, to collusion and

<table>
<thead>
<tr>
<th></th>
<th>Individual-related</th>
<th>Company-related</th>
<th>Lack of</th>
<th>Internal and external collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior/top</td>
<td>44</td>
<td>16</td>
<td>55</td>
<td>41</td>
</tr>
<tr>
<td>Middle management</td>
<td>39</td>
<td>15</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>Other employees</td>
<td>35</td>
<td>10</td>
<td>39</td>
<td>22</td>
</tr>
</tbody>
</table>

Percentage of reported frauds of internal fraudsters—multiple answers.

23 Original question: ‘To what extent would you say that the following reasons have played a role in the offences you mentioned?’
insufficient company controls. When talking about such offenders, respondents mentioned their lack of awareness of values and of self-discipline and, above all, their exploitation of a high position of trust. Company-related causes were also reported more frequently for middle and top/senior management than for other employees.

The disproportionate involvement of senior and middle management indeed raises questions about corporate culture and ethics (Bussmann 2003; Wieland 2003). The global comparison showed that the majority of companies in our survey had implemented a set of ethical guidelines (global 79 per cent) and, in Canada and the United States, nearly every company reported having ethical guidelines or a code of conduct (94 per cent; see Table 4). United States-specific regulations such as the Federal Sentencing Guidelines and the Sarbanes Oxley Act may well be partially responsible for this (see Hefendehl 2004; Steinherr et al. 1998; see also McBarnet in this issue).

Earlier surveys in the 1980s indicated that half of North American corporations considered such ethics programmes to be effective in preventing crime (Steinherr et al. 1998: 199). Our survey showed that the proportion of those who were satisfied with such systems was very high. Seventy-nine per cent of the respondents in companies in North America and, worldwide, 70 per cent were satisfied with how their own guidelines worked in practice. However, this might give a too optimistic picture. Thus, in our US and German sample, only 63 per cent of managers in the United States and 38 per cent in German companies are very well informed about the ethical guidelines in their companies. Further, business ethics should not just address general values but should offer concrete guidelines for actions and include distinct consequences for failure to respect them (Bussmann 2003). Therefore, they need explicitly to communicate norms of criminal law. In our sub-sample, we found that only 50 per cent of US and a mere 25 per cent of German companies reported that their ethical codes contained detailed information on what is prohibited by criminal law. It seems that companies perceive of business ethics as on top of legal obligations, and therefore might miss out on the more mundane references to criminal law.

Coping Strategies

In relation to the reported cases, we probed into how companies proceeded after they had discovered that they had been victimized (Table 5). After first suspicions of serious economic crime had arisen, companies generally launched an internal investigation (82 per cent of all cases worldwide), commissioned an external investigator (73 per cent) or called in law enforcement officers (62 per cent). There seemed to be distinct differences in legal cultures between (economic) regions. This was particularly obvious in the widely differing practices regarding criminal charges. Globally, approximately half (51 per cent) of all internal and external suspects were charged. However, the importance of criminal charges is drastically reduced when offenders from within the company are involved. Companies took advantage of a wider range of options that also allowed them to protect their reputation. Generally, such perpetrators were dismissed (worldwide 82 per cent), and criminal charges were brought only against less than half of them (46 per cent). Culture-specific treatment of offenders was also more obvious.

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24 We attribute the relatively high rates in Africa and India as reported in Table 4 to the fact that the sample consists of a disproportionately high number of international companies.
for internal perpetrators. In Asia, criminal charges were only brought against 26 per cent of perpetrators from the ranks of the company, whilst dismissal increased to two-thirds (68 per cent). Asian companies were outstanding in preferring discreet responses, and consequently they more frequently only warned internal perpetrators (19 per cent, globally 15 per cent), transferred them within the company (10 per cent, globally 3 per cent) or twice as often than the global average did nothing (16 per cent, globally 8 per cent) (see, also, Pontell and Geis 2007).

As controversial as the deterrent impact of criminal charges on economic crime offenders may be, companies have to react and if they are concerned about legitimacy, need to be seen to apply the same standards to all their staff—managers as well as other employees. This was often not the case, because companies clearly took the offender’s position into account when reporting an offender to the authorities. If he or she came from top management, criminal charges were brought in only 40 per cent of cases worldwide compared with 55 per cent against employees below the middle management. It is also notable that companies worldwide far more frequently reported having taken no action against high-status offenders (17 per cent) than against those of lower status (middle management 10 per cent; other employees 8 per cent).

New insurance packages against the risk of economic crime might contribute to this pattern. Half of the companies worldwide report to have taken out fidelity insurance to cover the financial risks of economic crime. The standard conditions of company fidelity insurances do not require criminal charges as long as a suspect is named, and insurance terms only specify that criminal charges must be brought in investigations of persons unknown. As a result, companies retain full discretion when responding to perpetrators from their own ranks, and apply this discretion as they see fit. These types of insurance basically favour and support procedures of self-regulation in dealing with such cases without bringing criminal charges.

In addition, our study revealed a strong dissatisfaction with law enforcement agencies, their investigations and their success throughout the world. Managers thought little of the justice system. Only 28 per cent were satisfied with its procedures, with the lowest rates in Africa (16 per cent), Japan (17 per cent), Central and Eastern Europe (23 per cent) and South and Central America (24 per cent). Moreover, as Table 6 shows, companies worldwide reported that only 30 per cent of the perpetrators they knew about were actually sentenced (internal perpetrators 21 per cent, external perpetrators 32 per cent); sentencing of alleged and detected offenders was least frequent in Central and Eastern Europe (21 per cent) and most frequent in the United States and Japan (36 per cent). Our data further indicate preferential treatment for offenders from the top management. Even if transferred to the criminal justice system, on average, only 26 per cent of offenders from top management were sentenced compared with 34 per cent from lower-ranking staff. Taken together, these can be deemed strong incentives for the internal settlement of the cases.

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26 The reported high sentencing rate in Japan is probably due to the practice of reporting only petty cases for lower-ranking employees.
### Table 4  Business ethics

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Australia</th>
<th>S &amp; C America</th>
<th>North America</th>
<th>Asia and Pacific</th>
<th>Western Europe</th>
<th>C &amp; E Europe</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implemented*</td>
<td>88</td>
<td>95</td>
<td>80</td>
<td>94</td>
<td>70</td>
<td>76</td>
<td>63</td>
<td>79</td>
</tr>
<tr>
<td>(Very) satisfied with**</td>
<td>68</td>
<td>75</td>
<td>83</td>
<td>79</td>
<td>57</td>
<td>66</td>
<td>69</td>
<td>70</td>
</tr>
</tbody>
</table>

* Percentage of companies worldwide; ** percentage of companies with business ethics.

### Table 5  Actions brought against internal perpetrators

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Australia</th>
<th>S &amp; C America</th>
<th>North America</th>
<th>Asia and Pacific</th>
<th>Western Europe</th>
<th>C &amp; E Europe</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warning/reprimand</td>
<td>11</td>
<td>18</td>
<td>15</td>
<td>10</td>
<td>38</td>
<td>19</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Transfer</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>&lt;1</td>
<td>13</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Dismissal</td>
<td>84</td>
<td>86</td>
<td>87</td>
<td>81</td>
<td>75</td>
<td>85</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Criminal charge</td>
<td>58</td>
<td>51</td>
<td>50</td>
<td>50</td>
<td>25</td>
<td>46</td>
<td>55</td>
<td>46</td>
</tr>
<tr>
<td>Civil action</td>
<td>27</td>
<td>16</td>
<td>28</td>
<td>20</td>
<td>–</td>
<td>34</td>
<td>38</td>
<td>26</td>
</tr>
<tr>
<td>Other consequence</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>3</td>
<td>–</td>
<td>4</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>No action</td>
<td>5</td>
<td>18</td>
<td>3</td>
<td>6</td>
<td>–</td>
<td>8</td>
<td>4</td>
<td>8</td>
</tr>
</tbody>
</table>

Percentage of reported frauds—multiple answers.

### Table 6  Perpetrators sentenced

<table>
<thead>
<tr>
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<th>Africa</th>
<th>Australia</th>
<th>S &amp; C America</th>
<th>North America</th>
<th>Asia and Pacific</th>
<th>Western Europe</th>
<th>C &amp; E Europe</th>
<th>Global</th>
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</thead>
<tbody>
<tr>
<td>Sentenced</td>
<td>34</td>
<td>25</td>
<td>24</td>
<td>32</td>
<td>14</td>
<td>34</td>
<td>21</td>
<td>30</td>
</tr>
</tbody>
</table>

Percentage of reported frauds.
Conclusion

Our study shows that despite the observed regional and probably also cultural differences throughout the world, we find very similar patterns of reasons given for the perpetration (and victimization) of economic crime and equally similar ways of handling it. Companies worldwide prefer internal settlements of cases when they have been victimized through economic crime, and business globally develops a set of strategies of prevention and control in the shadow of the criminal justice system. Interest in research findings from this branch of criminology is growing just as fast as the awareness in companies of the risks that they have to face.

References


Appendix 1: Definition of Crime Types

Asset misappropriation (including embezzlement by employees): the theft of company assets (including monetary assets/cash or supplies and equipment) by company directors, others in fiduciary positions or an employee for their own benefit.
Corruption and bribery (including racketeering and extortion): typically, the unlawful use of an official position to gain an advantage in contravention of duty. This can involve the promise of an economic benefit or other favour, the use of intimidation or blackmail. It can also refer to the acceptance of such inducements.
False pretences (confidence game): the intentional action of a perpetrator to deceive those in fiduciary positions and make a personal or financial gain.
Financial misrepresentation: company accounts are altered or presented in such a way that they do not reflect the true value or financial activities of the company.
Insider trading: trading of securities by a person inside a company based on non-public information.
Money laundering: actions intended to legitimize the proceeds of crime by disguising their true origin.
Counterfeiting (including product piracy, industrial espionage): this includes the illegal copying and/or distribution of fake goods in breach of patent or copyright and the creation of false currency notes and coins with the intention of passing them off as genuine. It also includes the illegal acquisition of trade secrets or company information.