



*In the corporate world, personal and financial success is sometimes not enough to satiate individual greed.*

◆ ROBIN BANERJEE, AUTHOR, *WHO CHEATS AND HOW?*

**CORPORATE  
GOVERNANCE**



# Why do corporates cheat?

**M**ost of us would have lied sometime or the other. Human behaviour is riddled with half-truths and white lies. Many of us make promises knowing full well we cannot keep them; parents never tell their children the complete truth, and children in turn play truant with the truth whenever it suits them.

Think about the CVs and resumes that you may have come across, with wildly exaggerated self-proclamations projecting holier-than-thou images. If everything written there were indeed accurate, then no company in existence would need to carry out employee referencing—an outcome of rampant lying.

## **Crafty corporates**

Corporate life is no different. How can our business lives be different from what we practise in our normal lives? We can talk about good corporate governance, and announce awards for the best governed companies, but can we say that none of the companies cut any corners in their daily business-lives? The concepts of truthfulness preached by politicians, when contesting elections, are mere fantasies in the business world.

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Martha Stewart risked her business empire in order to save \$50,000.

Think about advertising campaigns. We have always watched ads that show bars of soap making every woman look like a movie star. Or for that matter, using a particular shampoo or hair oil helps in having a perfect crop of hair. Did the advertisers believe their ad campaigns were realistic and correct? Perhaps not. Many would say that stretching the truth about product functionalities

a bit is alright in this make-belief world. The cosmetics, beauty, health, and fitness industries are often built on this duplicity.

The overwhelming desire to get rich overnight helped the invention of the infamous Ponzi and 'pyramid' schemes.

With money from new investors required to pay off previous

investors, the schemes sit on white lies from the onset. Phantom schemes and fictitious stories are conjured up to light the fire of desire in the greedy. The Saradha and Rose Valley chit fund scams are just the tip of the iceberg. Thousands of crores have already been siphoned off and as you read this, somewhere in the world, a Ponzi scheme is operating to eat away the savings of the naive and the innocent.

**Unless the matter of fair distribution of wealth is addressed, the world may continue to suffer due to unethical practices.**

## Fraudulent enterprises

Forget about cutting corners or bending a few rules, outright frauds are not uncommon in the corporate corridors. During April to December 2013 alone, seventeen firms were probed by the government's investigating arm, the Serious Fraud Investigation Office. As of 2011-12, this number stands at a whopping 81.

The number of companies involved in fraudulent activities in India is too large for comfort. Banks are not an exception either. The nature and variety of banking fraud are many: there are banks committing fraud, there is fraud committed in banks, and fraud committed on banks where scamsters from outside defraud them. Consider this: during April to December 2014, Indian public sector banks reported 2,100 cases of fraud, involving a massive ₹ 11,000 crore. The bad news is that this number is on the rise, with the previous full-year defrauded amount standing at ₹ 7,500 crore. The banks involved are the bigwigs of Indian banking—State Bank of India, Punjab National Bank, Central Bank, Syndicate Bank, Oriental Bank of Commerce, Bank of Baroda, and IDBI.

With online banking a common thing these days, it has become a haven for fraudsters. Globally, victims lose over \$350 billion every year due to digital crime, making it more profitable than other organised criminal activities.

## Why do reputed corporates cheat?

Corporates have cheated plenty over the years. Names involved often make the who's who listings, many a time leading to disbelief when the recalcitrant's names are heard. The asymmetrical approach to morality by some corporates may be due to the unequal distribution of global wealth, despite growth in the overall wealth of economies. Good, moral behaviour, and sound corporate governance are being sacrificed at the altar of personal gain. Unless the matter of fair distribution of wealth is proactively addressed—and no clear method has emerged to achieve this—the world may continue to suffer due to unethical practices.

Frauds and scams crumple the corporate image. It is common knowledge that corporate boards and senior management are usually focused on forecasted profit targets. With the focus on profit and growth numbers, enforcement of strong ethics is not often on the top management's agenda. This absence of ethics is a recipe for poor corporate governance, leading to high probability of causing dents in a corporation's goodwill. All corporates do not cheat, but many do. Separating the rotten eggs in a basket from the good ones can get quite challenging.


**ABOUT THE AUTHOR**

**Robin Banerjee** is a senior professional executive with over 35 years of experience.

### Why do people doing well in the corporate world cheat?

Ramalinga Raju, one of the founders of Satyam Computers Services, progressed distinctively well in the corporate world, but greed got the better of him. He cooked the company's books, falsified bank statements, and ran one of the largest scams in Indian history, worth over a billion dollars. Martha Stewart avoided a loss of less than \$50,000 on the sly through advance insider information obtained from known sources. She was fined and jailed for insider trading. Then we have Rajat Gupta,

the former Managing Director of McKinsey & Company—he passed boardroom secrets to his friend Raj Rajaratnam, a hedge fund titan. Gupta broke the trust the corporate world reposes on board members. Not surprisingly, both Gupta and Rajaratnam were sent to jail.

Why do people who are seemingly doing well in the corporate world risk their reputation, which they have built over the years through hard work? 'Greed' is the only answer that comes to mind.

### Extent of the problem

The scale at which fraud is committed has assumed gigantic proportions. Worldwide, companies lose around 5% of their revenue—\$3.5 trillion—to fraud. To avoid paying taxes, \$20 trillion has been stashed away in tax-havens, away from the prying eyes of the taxman. A colossal sum of \$2 to \$3 trillion is laundered every year globally; less than two-thirds of all frauds are ever reported. In essence, massive sums of money are either being siphoned off through cheating, or hidden and laundered to unjustly enrich a few. And many corporates are part of the bandwagon.

### What should we do?

What can be done to combat the menace of corporate fraud? Time-bound investigations, disclosure of the modus-operandi, increased penalties, jailing corrupt executives, making auditors truly independent from their clients, and barring guilty companies from doing business for a length of time would be a good starting point. As greed is not going to diminish in mankind, neither will the inherent tendency to make a fast buck by cutting corners in the business world.

Since it is doubtful that such far-reaching steps will actually be taken, it is important to be aware of the maxim—knowledge is power. Strong internal controls, management audits, and providing incentives to whistle-blowers can go a long way in making the corporate world difficult for fraudsters to operate in. **IM**

(Based on the book, *Who Cheats and How? Scams, Fraud and the Dark Side of the Corporate World.*)

