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Stopping Business Fraud Begins at Home

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On May 24, 2011, news agencies reported cases of fraud rose to an all-time high in the first quarter of the year. So in early June, at [IMA's Annual Conference](#), I attended the education session, "Recent Financial Frauds and How to Avoid Them." Within this session, speakers reviewed various small and large fraudulent business cases along with the accounting controls that should be used to avoid them. All of the control measures presented were a helpful reminder to accounting and financial professionals.

As I returned home from the conference, I wondered how accounting and financial professionals could make such bad choices and what could be done to prevent them. While accounting controls provide safeguards against fraudsters, and treat the symptoms of fraud, they unfortunately do not prevent the scheme itself. To prevent fraud, we need to educate individuals early on about ethics and do a better job of teaching entry level business professionals strong ethical judgment.

Early Education in Ethics

Unethical behavior should not come as a surprise to businesses, or society at large, as individuals are taught right from wrong at a very early age. They learn from what they see around them – in their families, schools and communities. If we review the current literature on the subject, you will find very consistent and time-tested advice encouraging ethical behavior at a very early age. For example, in "The honest child: How to teach honesty," by Mary VanClay, writer for BabyCenter.com, she states:

Set a good example. *The best way to teach honesty is to be honest. Avoid lying to your kindergartner, even about difficult subjects such as illness, death or divorce. Even a 5-year-old can sense the dishonesty in euphemisms about Uncle Ted's drinking habits, for instance. And remember what she's learning if she hears you call in sick for work when you're fine or lie about her age so you can save a few dollars on her amusement park admission. Honesty does have a price, and it's worth paying it now.*

A more contemporary example is allowing children to have a Facebook account when they are younger than 13. Facebook's rules require registrants to provide a verified birth date to prove they are 13 or older, therefore any child under the age with an account on Facebook has fraudulently entered the site. On NBC's "Today" Show, Matt Lauer interviewed children and parents who thought this transgression was socially acceptable. In other words, the idea that these parents have taught their children that some rules can be dismissed and do not pertain to them. These are the exact words we hear from those who commit business fraud.

The Ripple Effect

What is the personal value of integrity, honesty and ethical behavior? What are the lifetime costs of an ethical lapse to a spouse, parent, child or friend? These personal costs can be huge. Take Aaron Beam, former CFO of HealthSouth, whose ethical lapse we can place a price on. As co-founder of the rehabilitation and medical services chain with Ex-CEO Richard Scrushy, Beam was just one of 15 who pleaded guilty to bank fraud in 2003, admitting HealthSouth executives overstated earnings in order to meet analysis expectations.

Beam was making hundreds of thousands of dollars in his CFO position and was forced to pay a \$285,000 fine. Now, while he does occasionally speak on business ethics, his profession has been reduced to lawn mowing. Clearly, his income and personal standing in the community have suffered dramatically, in addition to the business cost HealthSouth has faced due to his fraudulent actions. When Mr. Beam does speak, he stresses the fact that the values we are teaching our children are changing. We are subtly encouraging ethical risk by rewarding those who succeed in walking the fine line between right and wrong. He encourages professionals to steer away from this mindset and set high standards as parents and adults.

As professionals, we can make an immediate impact on the business ethics of tomorrow's leaders by carefully assessing our current behavior within our family, school and community. While setting a good, consistent example is not easy, and sometimes not popular, it is a risk worth taking to foster positive change. The business ethics of tomorrow start at home each day.

Jim Walker is the CFO of J. Weston Walch Publishing, where he is responsible for accounting, finance, customer service, IT and HR. Mr. Walker earned his B.S. in Business Administration-Accounting from Old Dominion University and his M.B.A. from Western New England College. An IMA member for more than 25 years, he currently serves on the IMA Global Board of Directors and as board liaison to IMA's Committee on Ethics.

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