

## **WHITE-COLLAR CRIMES IN PAKISTAN**

**Professor Dr. Abdul Raouf  
&  
Mehmood-Ul- Hassan**

### **ABSTRACT**

Business corporations and government officials commit white-collar crimes while attempting to make money, acquire property, and get promotion and bonus for themselves or their kin. No government office or private corporation in Pakistan may be completely free from white-collar crime practices. The consideration for merit, fairness and accountability are very low and the sensitivity to money, violence, and organisational and political power is quite high. Business corporations pollute environment, avoid tax, and sell poor quality and unsafe products. Many Government officials may not perform their jobs without taking bribes and practising extortion.

Money laundering, capital drain, bad loans and other financial crimes are the sophistication of our banking and money exchange business. The list of causes of these crimes may include inflation, population explosion, oppression, cultural values, job stress, and survival needs. These crimes are increasing the cost of living and violence in our society.

Literacy rate for technology applications is extremely low in Pakistan. There is no doubt that the advent of computer systems has greatly improved our business and office performance. However, computer system experts may cause disasters through system breakdown, resulting in loss and distortion of valuable

information. In fact, computer crimes are becoming never to be proven otherwise decent acts in our society. Similarly, fraud has already become our normal way to doing business and performing office duties.

This study explores white-collar crimes and discusses their modes in Pakistan. The study may be useful for bankers, business managers, law enforcement people and educators of the country.

## **INTRODUCTION**

Crimes normally committed by people associated with official positions, rules, procedures, and representations are called white-collar crimes. The white-collar criminals are usually high status individuals in government or private organisations. However, the crimes may be committed by anyone at any level within or on behalf of the organisation.

The criminals often commit the crimes during the course of their service career. A smart and ambitious individual or an organised group of people within and without an organisation can perpetuate these crimes. The crimes concern the breach of trust regarding public interest and misuse of organisational resources associated with the position and authority of the officers.

The negligence or inability to properly perform an official duty due to physical handicap and mental illness may not involve white-collar crimes. Similarly, acts causing the loss of public interest and organisational resources, but performed having good faith, following proper rules and procedures, and observing reasonable professional consideration and sensible pre-cautions, may not fall in the domain of white-collar crimes.

The people involved use loopholes in the organisational systems and laws. They invent innovations and find bugs in the use of technology to commit the crimes. White-collar crimes do not involve direct physical violence. However, according to law, the

involved criminals may be subject to civil or criminal or both litigation and penalties.

Social theories indicate that white-collar crimes may be because of oppression, stress caused by rapid modernisation and re-structuring of society, conflict of interests, and lack of proper controls in government and corporate pursuits.

Keeping in view, the special circumstances, it may be fair to assume the cost of white-collar crimes might be an unreasonable part of the national income in the case of Pakistan. Everyday murder and violence news published in our daily newspapers might be fair indicator of consequences of white-collar crimes in our society.

Financial Fraud Institution (FFI) of USA imparts training to the interested persons regarding the financial crimes. It may offer the services at customer sites all over the world. The government of Pakistan, law enforcement agencies, the instructors and professionals of financial management, and financial institution may contact FFI for developing skills in financial crimes investigation so that the increasing incidence of the crimes may be controlled in Pakistan.

## **WHITE COLLAR CRIMES OF BUSINESS ORPORATIONS**

White-collar crimes can result in the gain for an individual or an organisational entity or program. When an individual commits the crime, the benefits and gains may be direct in the form of money and property; or indirect in the form of promotions, bonuses, power, and influence. When an organisation commits the crime, the benefits and gains to the organisation are usually direct, in the form of financial gain.

Corporations commit white-collar crimes in order to increase their illegitimate profits. They make unfair profits through producing and marketing the products that are considered unsafe for consumers' use on the basis of commercial laws and ethics of a

society. Many multinational and domestic companies are allegedly producing and marketing poor quality medicine products in Pakistan and are very clear examples of this practice. There is certainly a vacuum in the prevailing laws regarding advertisement practices in Pakistan.

Business companies can pretend that almost everything good ranging from becoming a beauty queen to super potent man can be caused by the use of their products.

The beauty soaps and beauty creams companies always advertise them as heavenly products but the products rarely ever improve the outlook of their consumers. Therefore, deceptive advertising is white-collar crime.

Corporations often tend to collude on the price and market shares of their products. In USA anti-trust laws and commercial codes prohibit collusive arrangements for price fixation. In Pakistan there is no effective rule like anti-trust law in USA that could prevent collusive arrangements between local business companies. Laws regarding the fair business practices are either absent or practically ineffective because of collusive arrangement between corrupt government officials and business counterparts. Collusive arrangement regarding price fixation can be easily observed in the case of cement, flour and ghee industries. The white-collar crime of price fixation unfairly regulates the competition in the favour of business companies and penalises consumers through high prices and poor quality of products.

The industries in Pakistan are responding to the requirements of International Standard Organisation. However, majority of the industries is still unaware of safety issues on the work places. Employers and employed both usually have low concern about the toxicity of various chemical processes and the hazards of mechanical motions.

Both employer and employed have low concern for the health and safety of the human being because of their blind profit

goals and poor cultivation of scientific and technological values. Every day newspapers are filled with the news of poisonous gas leakage in a factory or by a transporting truck in the neighbourhood of population. Many people are killed and injured without compensation or remorse from the responsible industries. Obviously, concern for safety will increase the cost of producing the products\* that may affect the profitability of business enterprises. However, the pursuit of making money without the ensuring safe working condition is clearly a crime.

We are connected with one another through a comprehensive system called atmospheric environment. The case of acid rains and consequently destruction of crops and erosion of soil is quite known in USA. Environmentalists have been successful in the reduction of use of coal containing sulphur. The industries using coal in the generation of power are taxed progressively in proportion to the amount of their air pollution. The industries in Pakistan are enjoying air and water pollution holiday. They are free to throw toxic gases in the air and poisonous fluids in the rivers and waterbeds of the soil. Simple arithmetic says that they are prospering at the cost of the use and destruction of the resources of the society.

This category of crimes is almost equivalent to the genocide. The stakeholders in Pakistan must effectively enforce the environmental laws before the outbreak of widespread diseases like cancer, ulcer, infertility, tuberculosis, and blood pressures in major industrial cities like Kasur and Sailkot in Pakistan.

Insidious trading and business based on insidious information are highly objectionable and unlawful activity in USA. However, there is no effective law against insidious trading in Pakistan. Business adventurers can make unlimited profits by finding before hand the information about new currency rates, new prices of flour, cement, and petroleum products from the concerned quarters of the Government, like State Bank of Pakistan, Ministry of Food and Agriculture, and Ministry of Petroleum and Mineral Resources.

The 'Dollar Scandals' is very fresh example of white-collar crime based on insidious information resulting in the drain of foreign reserves from the local banks one day before the declaration of financial emergency and freezing of dollar accounts in Pakistan. Business companies of Pakistan are always ready to speak loud about their nationalism. However, when it comes to honest payment of taxes, the spirits are entirely antagonising. The companies will distort the sales records and go for unlimited strikes if asked to keep proper records and pay taxes according to some equitable rule.

Government of Pakistan has been granting loans on favourable terms to the small business and preferred industries. The individuals and corporations take loans and then through various fraudulent tactics in purchasing of plant machinery and raw material, and construction of sites, they take the money out of the projects. Consequently, the projects may not produce a marketable product and even if they do show some lively signs, the economic viability is always at stake.

Many of the loan-initiated projects are deliberately bankrupted after the money is withdrawn and sent abroad through available money smuggling schemes like 'Hundi'. It was 1.5 trillions to two trillions Pak rupees (30\$ billions to 40 billions illegal money) in the last fiscal year (Saeed, 1999).

## **COMPUTER CRIMES**

Computer crimes are involved in the use of computerised system to perform illegal acts. Computer crime can be divided into two main areas namely, theft, and sabotage and vandalism. Computer crime can be directed at software, data, or hardware.

In most cases, it involves unauthorised access to computer systems. Several modes of computer crimes have been identified (Alter, 1992).



Three types of computer systems theft are known: theft by entering fraudulent transaction data, theft by modifying software and theft by stealing or modifying data.

Someone can enter fraudulent data by forging documents, bypassing procedures, and impersonating someone else. The criminals can forge fraudulent checks, ID cards and currencies using scanners, drawing programs and laser printers. The criminals can also impersonate someone else and have electronic access to a victim's account, and steel money or information. In distribution fraud, the criminals can get an individual or company to pay for products and services it never received by steeling the credit card and telephone card numbers from the records of respective bank or a telephone company.

The criminals can modify computerised inventory records and steel the goods. They may put a non-existent employee on the computerised payroll of the company and embezzle funds from pension accounts by keeping any deceased person on pension file and sending the check to their account. Also Theft is made possible by modifying the software so that it performs according to the instructions of criminals. By modifying software, someone in a bank may be able to accumulate fractions of pennies on financial transactions and add them to ones' personal account.

The information about the important decisions about a company or government organisation may be stolen from their computer files and used for making large sums of money. Some criminals do not steel but they seek to damage hardware, software, or data. 'Trap Door', 'Trojan Horse', 'Time Bomb', 'Logic Bomb', and 'Virus' are some software tools used in sabotage and vandalism.

## **THE CRIME OF FRAUD**

Fraud is a very common white-collar crime in our society. The people in every walk of life may tend to commit it. It may not be an overstatement if one asserts that our total social and business

interactions are based on distortion of information and untrue representation, in order to either make financial gains or seek psychological gratification.

The existence of Ghost Schools, Booti Mafia, and sub standard degrees allegedly issued by both public and private institutions may be referred to as the famous crimes in the field of education in Pakistan. Fraud mind-set is destroying the concept of merit and professionalism in our society. The cost of the distrust alone as a result of fraudulent pursuits may be in billions in terms of low productivity and redundancy of efforts in our society.

Fraud is said to be committed if any or all of the following situations exist (Certified Fraud Examiner's Manual, 1996): An individual or an organisation intentionally makes an untrue representation before an individual or organisation about an important fact or event; the victim believes the untrue representation.

The victim of the untrue representation may be a person or organisation; the victim relies upon and acts upon the untrue representation; the victim suffers loss of money and/or property as a result of relying upon and acting upon the untrue representation.

Following white-collar crimes may exist when a fraud is committed (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992): -

## **BRIBERY**

It may be stated without exaggeration that bribery is our way of doing business and delivering services. Bribery is comprehensively defined as the giving, receiving, offering, or soliciting of anything of value in order to influence an official in the performance of, or failure to perform, the lawful duties of that official. This includes influencing or soliciting the commission, or collusion to commit, any other type of fraud; or influencing an official, or soliciting by an official, to do, or omit to do, any act



that violates the lawful duty of that official (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992).

Bribery defrauds the victim (usually an organisation or political entity) of the right to honest and loyal services from those employed by the victim. It is universal phenomena. According to the recent report of World Bank, "Corruption moves some 600 billion dollars annually in the shape of bribes, commission, kickbacks and money laundering world wide (Sadiq, 1998, p.66)." The instances of political leaders and high placed government functionaries accepting huge commission or bribes from multinationals or foreign government are numerous. In this connection, private power plant controversy in Pakistan may be pointed out as an example (Aslam, 1995, p. 219).

Bribe culture has hindered the development of a decent, clean and efficient society in Pakistan. Efficiency has given way to inefficiency, honest to dishonesty, financial integrity to corruption, merit to favouritism and justice to in justice. In today's Pakistan, bribery and corruption have become institutionalised. There exist an underworld chain in every department. It is like a mini-Mafia in every department or sector of life (Saleh, 1988).

According to one estimate, nearly 80% GNP or 40 billion is devoured by the sharks of corruption and about 60% of all foreign aid finds its way into foreign bank accounts held by them (Aslam, 1995, p.219). The travellers have to give bribe to customs authorities on their arrival at our airports and seaports. Otherwise, they may to face long equiries and penalties. One may consume electricity and yet does not have to pay the original cost of consumption through a mutually pre-agreed monthly bribe payment to the associated personnel. Public corporations and utility organizations alike are domains of corruption in Pakistan, where billion of rupees find its way to domain of higher bureaucracy, political master, contractors, and industrial consumer. The bureaucracy in developing countries has understandably been labelled as "corrupt" and Pakistan is no exemption (Seghal, 1989).

The auctions and competitive bidding are exercised in such manner that the favourite party wins all or the major part of the auction or the contract whichever is applicable. If one does not comprehend the situation promptly and resort to the bribe payment, ones' life may be made miserable through long official process and undue hardships. The payment of bribe may appear to be the only cost effective way while doing business and surviving in Pakistan. An Italian proverb says public money is like holy water and every one wants to have it. Precisely it has been happening in Pakistan.

## **CONFLICT OF INTEREST**

Fraud is said to have occurred when an agency's conflict of interest results in economic or financial loss to the individual or organisation on whose behalf it is acting.

Conflict of interest laws apply to government employees and those doing business with government. A conflict of interest occurs when a person or organisation acts on behalf of another individual or organisation; and has, or appears to have, a hidden bias or self-interest in the activity undertaken; and the hidden bias or self-interest is actually or potentially adverse to the interests of the individual or organisation being represented; and the hidden bias or self-interest is not made known to the individual or organisation is represented (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992).

One can fairly assume that in Pakistan self-interest may be the prime motive in many of our official pursuits. Self-interest is divine in here similar to the 'invisible hand' advocated by Adam Smith. The task where self-interest of the main players is not involved would take a lifetime to be accomplished. Advertisements for the job are carefully prepared so that only the kin or a favourite person of the decision-makers is qualified. Successive governments made a culture of recruiting vacant posts within the domain of political allies and associated interest groups.

Posting of technical cadre in public corporations, law enforcement agencies and utilities sectors has been granted to relatives of the loyal politicians of the every government in Pakistan. The epidemic has been destroying the traditions of merit and philosophy of equal opportunity and social justice. Job quota and un-rightful appointments of commercial consulates by previous governments may be cited as the examples of white-collar crime in Pakistan. Vendors are mostly pre-selected according to their psychological, physical or financial relationship with the purchase department of the government and private corporations.

### **FALSE STATEMENTS AND FALSE CLAIMS**

A false statement fraud and false claims fraud occur whenever anyone knowingly and wilfully falsifies a material fact or makes a false or fictitious representation or files a false or fictitious claim that results in economic or financial loss to the party to whom the false representation has been made (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992).

Think of attendance sheet of students obtained through circulation among the students in a class; the time sheet of labour leaders showing the number of hours they have been actually on the job; and tragically most statements made by our national leaders, all contain distorted information and may fall in the domain of false statement fraud or false claims fraud.

### **EXTORTION**

Extortion occurs when a person or organisation obtains something from another individual or organisation under colour of official office and/or through the use of actual or threatened force or fear, including fear of economic or fiscal loss (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992). It is an epidemic. It is our strong man mentality rather more of a sex complex. It is our belief that the rights of property, life, and well being of an individual are best taken away through creating a

miserable situation for him or her in job, business, and relationship.

Rationality does not pay here. Problem solving approaches may invoke punishment. Creativity and innovation are equivalent to becoming an atheist. In this hell of the affairs, optimum strategy to prosper and advance in career may be to become a 'Yes Man' and 'Thumb Stamp' to the seniors or person in charge of ones' career. Once one has acquired the charge, all fortunes of good name, money and respect will automatically follow through perpetual divine ritual of extortion.

## **CONSPIRACY**

Conspiracy occurs when there is a specific intent that a crime be performed; and there is an agreement with another person to engage in or cause that crime to be performed, and one of the conspirators commits an overt act in furtherance of the conspiracy.

Conspiracy is also divine ritual according to the prevailing practices in Pakistan. It is a never to be proven crime in our set up. Conspirators appear to be decent people in their social life. However, they can kill a person or kill many through blasting a bomb on public place; create harassment and maintain sex discrimination in any organisation; prove an innocent man to be guilty; and defraud the Government of millions or even billions of rupees thanks to the bliss of conspiracy.

## **BREACH OF FIDUCIARY DUTY**

A breach of fiduciary duty occurs when a person, who is employed by and owes a duty to an organisation or another individual, does something that is not in the best financial interest of that organisation or individual. Breach of fiduciary duty is a civil matter, not a criminal offence. However, as a civil offence, the elements of proof required for conviction are considerably simpler than for criminal fraud, and it is not necessary to prove wrongful

intent. There are other types of breach of fiduciary duty. These fall under the umbrella of gross negligence, gross mismanagement, and abuse (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992).

Development and maintenance of improper controls by the accountants, auditors, and decision-makers of the organisations dealing in Income Tax, Customs and Excise, Birth Certificates, Land Revenue, and Vehicles Registration, are the examples of breach of fiduciary duty. A typical example of the breach was the inability of internal and external auditors, and management and Registrar of the co-operatives to timely assess and resolve the gross anomalies in the financial management of co-operatives in Punjab.

Thousands of people including widows and senior citizens were defrauded through co-operative schemes and the echo of their curses can still be heard in our social, political and legal spheres.

## **EMBEZZLEMENT**

Embezzlement is the fraudulent conversion of personal property by a person in possession of that property where the possession was obtained pursuant to a trust relationship (Certified Fraud Examiner's Manual, 1996; Internal Auditor Magazine, 1992). 'Kiting' and 'Lapping' are two very good examples of embezzlement. In kiting funds are drawn from bank without actually collecting them from the bank for which the check is drawn. Continuous kiting from one bank to another permits perpetual fraud.

Similarly, the management of organisations may steel cash from organisational accounts and cover the theft through the payments of account receivables. The payment of second customer is used to show the receipt of payment for the first for which the initial theft was made and so on. This fraudulent practice is called 'Lapping'.



In this connection, the exercise of parallel banking in different centres of National Saving, Postal Saving and Insurance, Life Insurance companies, and foundations/ societies of Pakistan Railways, Taj Company, and various provincial Co-operative Societies are the act of embezzlement under the umbrella of white-collar crimes.

## CONCLUSION

Incidence of white-collar crimes is at an alarming rate in Pakistan. It may not be an overstatement to assert that it has become our common mode of doing business and delivering services. Honesty, professionalism, merit, decency, genuine information processing, community concern, human rights, and productive effort have little meaning in here.

The domain of white-collar crimes is a world of bribes, extortion, nepotism, lust, oppression, nuisance, violence, unsafe workplaces, toxic products, and budget and trade deficits. No government office or business corporation may be completely free from this evil. The society at large is the victim of the crimes and may have to suffer from poor life quality, capital drain, increasing violence, and low income and productivity levels as the results of these crimes. 'Helicopter Scandal', 'Steel Mill Fraud', 'Money Laundry in Swiss and UK Banks', 'Co-operatives Fraud', 'Mehran Bank Fraud', and 'Gold Scandal' are but some common examples of the alleged white-collar crimes at the national level. The cost of these crimes as indicated in our daily newspapers may be comparable to the size of our GNP or total external debt. It goes without saying that our reckoning system needs to give serious consideration to contain the white-collar crimes beyond politics.

The solution to control the incidence of white-collar crimes may lie in transforming the cultural values; respecting merit and contribution, promoting productivity and competitiveness, controlling inflation and population; improving systems maintenance and safety; making new pertinent laws; eliminating loopholes in the existing laws of the society; removing ambiguities

and anomalies in rules and procedures of the office process; and developing skill in investigating white-collar crimes.

This study explores white-collar crimes and discusses their modes in Pakistan. The study may be useful for bankers, business managers, law enforcement people and educators of the country

**References:**

Alter, S. (1992). Information Systems: A Management Perspective. pp. 773-810. New York: Addison-Wesley Publishing Company

Certified Fraud Examiners (1996). Certified Fraud Examiner's Manual. USA

Internal Auditor Magazine (1992). Fighting Fraud. August

Aslam, M. (1995). Economic Planning. p. 219. Lahore: Bilal Books.

Saeed, A. (1999, June7). Pakistan's Economic Peril Lies Underground. The News.

Segal, I. (1998, January 17). The Corruption Syndrome. The News.

Saleh, P. (1988, November 4). Pakistan Plunders Pakistan. The News.

Sadiq, S. (1998). Challenge For Banking Sector of Pakistan in 21<sup>st</sup> Century. The Journal of the Institute of Bankers in Pakistan. P.51071, Volume 64, No.2, June.

