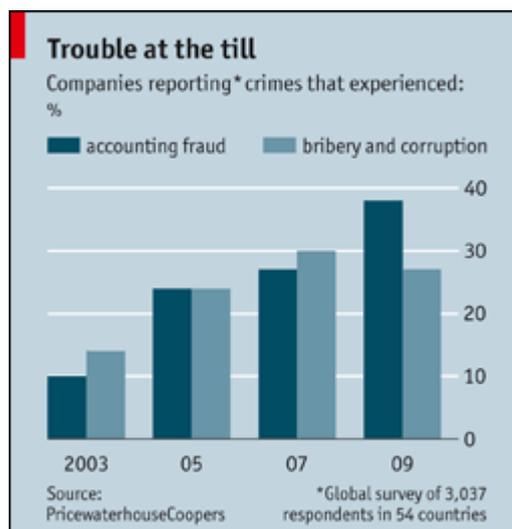


The rot spreads

A survey reveals that desperate times have led to illegal measures.



The recession has taken its toll on morals as well as profits. PricewaterhouseCoopers (PwC), a consulting and accounting firm, has conducted a biennial survey of economic crime for the past ten years. The most recent, published on November 19th, is not only the most thorough, based on over 3,000 responses from firms in 54 countries. In many ways it is also the most worrying.

A third of those responding reported that they had suffered at least one economic crime in the past year. The incidence was particularly high in developing countries, notably Russia; in financial services and communications; in big companies and in state-owned enterprises.

The three most common forms of crime are theft, accounting fraud and corruption. Of these, fraud has shown a particularly sharp rise (see chart): 43% of all corporate victims of crime and 56% of those in financial services reported an increase. The rise in fraud stems from a mixture of increased opportunities and growing incentives. Companies have been reducing the number of people employed to monitor workers at a time when employees are more tempted to break the rules because their living standards are eroding and their jobs are looking shakier. The proportion of frauds committed by middle managers has shown a particularly sharp rise, from 26% in 2007 to 42% today.

Economic crime has dismal consequences for everything from corporate morale to financial performance: a quarter of the firms that reported accounting fraud believed that it had cost more than \$1m. What can be done to stamp it out? PwC argues that senior managers should play a more active role in combating the problem. Just 26% of executives reported economic crime in their organisations compared with 34% of respondents from lower ranks.

The survey also raises doubts about performance-related pay. Economic crimes of all kinds are markedly more common in firms that make a lot of use of it. Of firms that link more than half of bosses' pay to performance, for example, 36% report frauds, compared with just 20% of firms that use no such incentives. A growing number of executives, it seems, are discovering that the only way that they can hit their performance targets is to break the law.

THE rot spreads. **The Economist**, New York, Nov. 19th 2009. Disponível em: <www.economist.com>. Acesso em: 24 nov. 2009.