Large and small companies need a whistle blowing system to fight crime

Small companies are both disproportionately victimised by fraud and significantly under-protected by anti-fraud controls, a combination that could easily put them out of business.

"That’s why it is becoming increasingly important for smaller companies to put a whistle blowing system in place. In South Africa, everyone needs to be brought into the crime fighting fold," says Dale Home, who heads up Whistle Blowers, South Africa’s leading independently owned corruption reporting service provider.

With 15 years’ experience, Whistle Blowers has noted important trends and alarm signals over the years. The company offers subscribing clients internationally a 24/7 call centre which is manned by highly trained multi-lingual staff. Subscribing client employees can report irregular activities such as theft, fraud, bribery or any irregularities within an organisation, secure in the knowledge that their identities are protected.

Whistle Blowers is not affiliated with a large auditing firm to ensure that there is no conflict of interest. As such, the company has become the preferred service provider of hotlines to like-minded auditing companies, both large and small.

Home says many of the issues identified by Whistle Blowers over the years are echoed in various credible international research such as the 2014 Report to the Nations on Occupational Fraud and Abuse carried out by the Association of Certified Fraud Examiners (ACFE).

This was based on 34 615 cases spread across America, Europe, Asia, Canada, Latin America, the Middle East and Africa (including South Africa) from October 2013 to December 2013. Most noteworthy is the striking similarity of findings across all the different countries.

"Small businesses (defined as those with fewer than 100 employees) were victimized in the greatest percentage of cases reported to us. In addition, the median losses for small businesses and the largest entities (those with more than 10 000 employees) were the highest at $154 000 and $160 000 respectively. While the absolute median loss for the largest entities is slightly higher than that for small businesses, it is important to note that the overall impact of a $154 000 loss for many small businesses is much greater than the relative impact of a $160 000 loss at an organization with more than 10 000 employees," the ACFE report notes.

For Home, the pivotal issue is that the survey found that small organisations were much less likely to have hotlines or internal audit departments than their bigger brothers.

In South Africa, this is a given as listed companies now have to have a whistle blowing system in place by law. SMMEs don’t.

Nevertheless, Home stresses, the same statistics apply to employees of both big and small businesses - 25 percent of people are dishonest, 25 percent would never do anything improper and the remaining 50 percent could go either way depending on the culture of the organisation. Whistle Blowers focuses on training and education of staff to swing the percentage from dishonest to honest.

He believes that one of the key reasons that smaller companies don’t take measures to detect dishonesty is the same reason why they are particularly susceptible to it - decision-making is confined to a few key managers.

Another closely aligned problem is that these key employees multi-task and are often pushed for time, pushing
preventing fraud further down the priority list. He adds that small business owners have a misperception that this type of facility is expensive.

He points out that the general view by the founder of a small business and, in particular a family business runs along the lines of: “I’m the boss. Everybody respects me and if something is wrong, they will tell me.” But he warns that this false sense of security often has its roots in a feeling that employees owe a business owner because he pays their salaries when, in fact, that is probably the very reason why they would avoid telling him that something was amiss.

Then there’s the risk of being identified as the one who snitches to the boss within a small, closely knit organisation – which emphasises the importance of protecting the identity of a whistle blower.

“Our success over the past 15 years stems from our ability to protect the identity of whistle blowers and, at the same time, having the skill to obtain enough information to get to the bottom of irregularities. There are clear guidelines on reports and who will handle these,” says Home.

Despite his concern that too few small businesses are fighting fraud within their own organisations, Home admits that, over the past two years, Whistle Blowers has seen overall growth of around 50 percent in South Africa and 98 percent in Africa, as well as international growth.

He says that it is also evident that smaller companies are now following in the footsteps of their larger compatriots. 60 percent of those that subscribe to Whistle Blowers are fully committed to preventing and detecting problems. 20 percent of these are SMMEs.

Interestingly, he believes that the reason why many smaller companies have signed up is due to pressure from larger corporates to which they are service providers. “There is growing pressure on small business to fall into line when it comes to both ethics and corruption fighting mechanisms. These bigger clients require them to have a whistle blowing mechanism in place.”

Home says many large corporations see whistle blowing as a means of protecting their companies’ good name and valued brands. Contractors should also be brought into the crime fighting fold, as they spend a large amount of time on site. They could even be responsible for theft, fraud or injuries on site, but it is the client business that suffers from the unfortunate incident. “Theft, fraud and corruption affect everyone along the entire value chain. Contractors will lose a contract if their customer goes bang and possibly even their own business as a result. By facilitating the reporting of fraud within your own organisation or within your customer’s, you are looking after your own interests.”

But why an anonymous whistle blowing line in particular? Home returns to the ACFE findings. “Tips are consistently and by far the most common detection method. Over 40 percent of all cases were detected by a tip — more than twice the rate of any other detection method. Employees accounted for nearly half of all tips that led to the discovery of fraud.”

The report goes on to note that the presence of anti-fraud controls ensure that fraud is detected quicker and hence costs the unfortunate company far less.

He also debunks the myth that a whistle blowing service is financially out of reach of small companies with tight budgets. “Cost-effective solutions can be designed for companies with less than 50 employees. It’s an inexpensive service that provides much needed eyes and ears in an organisation. This service is actually cheaper than a security guard,” he states.

Source: Shirley Williams Communications