**White-Collar Crime**

**A type of non-violent crime that is financially motivated**

Written by [**CFI Team**](https://corporatefinanceinstitute.com/editorial-guidelines/)

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**What is a White-Collar Crime?**

White-collar crime is a non-violent crime where the primary motive is typically financial in nature. White-collar criminals usually occupy a professional position of power and/or prestige, and one that commands well above average compensation.

The term “white-collar crime” was coined in the 1930s by sociologist and criminologist Edwin Sutherland. He used the phrase to describe the types of crimes commonly committed by “persons of respectability” – people who are recognized as possessing a high social status. Sutherland eventually founded the Bloomington School of Criminology at the State University of Indiana.

Prior to Sutherland’s introduction of the concept of white-collar crime, the upper classes of society were thought to be largely incapable of engaging in such criminal activity. Such a belief was so deeply entrenched in society that when Sutherland first published a book on the subject, some of America’s largest companies successfully sued to get the book heavily censored.

**Summary**

* White-collar crime is a type of non-violent crime that is financially motivated.
* White-collar crimes may be perpetrated by individuals or at a corporate level. Due to the sophisticated technology now available, however, even white-collar crimes committed by an individual may result in tens of millions in losses for the victims.
* A sociologist and criminologist, Edwin Sutherland, invented the phrase “white-collar crime” in 1939. Prior to his writings on the subject, many people resisted believing that members of the “upper class” engaged in criminal activity.

**Blue-Collar vs. White-Collar Crimes**

The difference between white-collar crime and blue-collar crime stems from the different types of criminal activity that the criminal has access to engage in.

Blue-collar crime, because of the more limited means of the people committing it, tends to be more straight-on – robbery, burglary, etc. In contrast, white-collar criminals are more often in a position – such as being a [loan officer](https://corporatefinanceinstitute.com/resources/knowledge/credit/bank-credit-analysis/) in a bank – to commit widespread and complex fraud schemes.

**Types of White-collar Crime**

White-collar crime encompasses a wide range of offenses, including the following:

**1. Fraud**

Fraud is a broad term that encompasses several different schemes used to defraud people of their money. One of the most common and simplest is the offer to send someone a lot of money (say, $10,000) if they will simply send the fraudster a little money (say, $300 – the fraudster may represent the smaller sum as being a processing or finder’s fee). Of course, the fraudster gets the money that is sent to him but never sends out the money he promised to send.

**2. Insider trading**

[Insider trading](https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/what-is-insider-trading/) is trading done with the benefit of the trader possessing material, non-public information that gives him or her an advantage in the financial markets. For example, an employee at an investment bank may know that Company A is preparing to acquire Company B. The employee can buy stock in Company B with the expectation that the company’s stock will rise significantly in price once the acquisition becomes public knowledge.

**3. Ponzi scheme**

Named after Charles Ponzi, the original perpetrator of such a scheme, a Ponzi scheme is an investment scam that offers investors extremely high returns. It pays such returns to the initial investors with the newly deposited funds of new investors.

When the scammer is no longer able to attract a sufficient number of new clients to pay off the old ones, the scheme collapses like a house of cards, leaving many investors with huge losses.

**4. Identity theft and other cybercrimes**

Identity theft and computer system “hacking” are two of the most widespread computer crimes. It’s estimated that losses from identity theft in the United States alone totaled nearly $2 billion in 2019. California, with over 73,000 cases of identity theft reported, was the state whose citizens suffered the most from the crime – Florida was a very distant second with 37,000 reported cases.

**5. Embezzlement**

Embezzlement is a crime of theft, or larceny, that can range from an employee taking a few dollars out of a cash drawer to a complex scheme to transfer millions from a company’s accounts to the embezzler’s accounts.

**6. Counterfeiting**

Our money has become more colorful and expanded in detail because it had to in order to combat counterfeiting. With today’s computers and advanced laser printers, the old currency was just too easy to copy. However, it’s questionable how successful the government’s efforts in this area have been. Rumor has it that very high-quality copies of the new $100 bill were available within 24 hours of the new bill first being issued.

**7. Money laundering**

[Money laundering](https://corporatefinanceinstitute.com/resources/knowledge/finance/money-laundering/) is a service essential to the needs of criminals who deal with large amounts of cash. It involves funneling the cash through several accounts and eventually into legitimate businesses, where it becomes intermingled with the genuine revenues of the legitimate business and is no longer identifiable as having originally come from the commission of a crime.

**8. Espionage**

Espionage, or spying, is typically a white-collar crime. For example, an agent of a foreign government that wants to obtain part of Apple Inc. technology might approach an employee at Apple and offer to pay them $10,000 if they will provide a copy of the desired technology.

**Classifying White-Collar Crime**

White-collar crime is commonly subdivided into two broad, general categories:

**1. Individual crimes**

Individual crimes are financial crimes committed by an individual or a group of individuals. An example of an individual white-collar crime is a [Ponzi scheme](https://corporatefinanceinstitute.com/resources/knowledge/other/ponzi-scheme/), such as the one run by Bernie Madoff. Other individual crimes in this category include identity theft, hacking, counterfeiting, and any of dozens of fraud schemes.

**2. Corporate crimes**

Some white-collar crime occurs on a corporate level. For example, a brokerage firm may let its trading desk employees engage in an insider trading scheme. Money laundering may also be conducted on a corporate level.

**A Contributing Factor – The Internet**

The explosion of the internet and ever-advancing technology has been accompanied by a corresponding rise in what is referred to as “cybercrime” – which is comprised of a myriad of online fraud schemes and various forms of “[phishing](https://www.consumer.ftc.gov/articles/how-recognize-and-avoid-phishing-scams)” for people’s personal information to commit the crime of identity theft. Cybercrime is basically any crime that is committed with the aid of computer technology.

It’s difficult to keep in mind that the term “hacking” – where a computer criminal breaks into a large database, such as the credit card records of a retail store, to steal both identity information and money – didn’t even exist in the mainstream culture 30 years ago.

Also, many considered the terms “phishing,” “email scam,” and the all-encompassing “cybercrime” as foreign. Computers gave us tools and capabilities that formerly didn’t even exist.

However, “progress” always comes with a price – and the price tag for our computerized and cell phone-connected world is a whole new category of crimes that, like computers and cell phones themselves, simply didn’t exist until the advent of new technology made such crimes possible.

**Keep Learning**

Thank you for reading CFI’s guide to White-Collar Crime. In order to help you become a world-class financial analyst and advance your career to your fullest potential, these additional resources will be very helpful:

* [Cash Larceny](https://corporatefinanceinstitute.com/resources/knowledge/other/cash-larceny/)
* [Fraud Triangle](https://corporatefinanceinstitute.com/resources/knowledge/accounting/fraud-triangle/)
* [Pyramid Scheme](https://corporatefinanceinstitute.com/resources/knowledge/other/pyramid-scheme/)

**Top Accounting Scandals**

**A recap of the top scandals in the past**

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**Accounting Scandals – List and Overview**

The last two decades saw some of the worst accounting scandals in history. Billions of dollars were lost as a result of these [financial disasters](https://www.britannica.com/topic/Financial-Crisis-of-2008-The-1484264), which destroyed companies and ruined peoples’ lives. Many of these accounting scandals were a result of the excessive greed of a few individuals whose actions led to disastrous consequences which brought down whole companies and affected millions of people. In this article, we look at the 10 biggest accounting scandals in recent times.

**Top 10 Accounting Scandals in the Past Decades**

**Waste Management Scandal (1998)**



Waste Management Inc. is a publicly-traded US waste management company. In 1998, the company’s new CEO, A Maurice Meyers, and his management team discovered that the company had reported over $1.7 billion in fake earnings.

The [Securities and Exchange Commission](https://corporatefinanceinstitute.com/resources/data/public-filings/types-of-sec-filings/)(SEC) found the company’s owner and former CEO, Dean L Buntrock, guilty, along with several other top executives. In addition, the SEC fined Waste Management’s auditors, Arthur Andersen, over $7 million. Waste Management eventually settled a shareholder class-action suit for $457 million.

**Enron Scandal (2001)**



Enron Corporation was a US energy, commodities, and services company based out of Houston, Texas. In one of the most controversial accounting scandals in the past decade, it was discovered in 2001 that the company had been using accounting loopholes to hide billions of dollars of bad debt, while simultaneously inflating the company’s [earnings](https://corporatefinanceinstitute.com/resources/knowledge/accounting/retained-earnings-guide/). The scandal resulted in shareholders losing over $74 billion as Enron’s share price collapsed from around $90 to under $1 within a year.

An SEC investigation revealed that the company’s CEO, Jeff Skillings, and former CEO, Ken Lay, had kept billions of dollars of debt off the company’s balance sheet. In addition, they had pressured the company’s auditing firm, Arthur Andersen, to ignore the issue.

The two were convicted, largely based on the testimony of former Enron employee, Sherron Watkins. However, Lay died before serving time in prison. Jeff Skillings was sentenced to 24 years in prison. The scandal led to the bankruptcy of Enron and dissolution of Arthur Andersen.

After the fact, the convictions were as controversial as the company’s collapse had been shocking, as prosecutor Andrew Weissman indicted not just individuals, but the entire accounting firm of Arthur Andersen, effectively putting the company out of business. It was little consolation to the 20,000 employees who had lost their jobs when the conviction was later overturned.

**WorldCom Scandal (2002)**



WorldCom was an American telecommunications company based out of Ashburn, Virginia. In 2002, just a year after the Enron scandal, it was discovered that WorldCom had inflated its assets by almost $11 billion, making it by far one of the largest accounting scandals ever.

The company had underreported line costs by capitalizing instead of expensing them and had inflated its revenues by making false entries. The scandal first came to light when the company’s internal audit department found almost $3.8 billion in fraudulent accounts. The company’s CEO, Bernie Ebbers, was sentenced to 25 years in prison for fraud, conspiracy, and filing false documents. The scandal resulted in over 30,000 job losses and over $180 billion in losses by investors.

**Tyco Scandal (2002)**



Tyco International was an American blue-chip security systems company based out of Princeton, New Jersey. In 2002, it was discovered that CEO, Dennis Kozlowski, and CFO, Mark Swartz, had stolen over $150 million from the company and had inflated the company’s earnings by over $500 million in their reports. Kozlowski and Swartz had siphoned off money using unapproved loans and stock sales.

The scandal was discovered when the SEC and the office of the District Attorney of Manhattan carried out investigations related to certain questionable accounting practices by the company. Kozlowski and Swartz were both sentenced to 8 to 25 years in prison. A class-action suit forced them to pay $2.92 billion to investors.

**HealthSouth Scandal (2003)**



HealthSouth Corporation is a top US publicly traded healthcare company based out of Birmingham, Alabama. In 2003, it was discovered that the company had inflated earnings by over $1.8 billion. The SEC had previously been investigating HealthSouth’s CEO, Richard Scrushy, after he sold $75 million in stock a day before the company posted a huge loss. Although charged, Scrushy was acquitted of all 36 counts of accounting fraud. However, he was found guilty of bribing then Alabama Governor, Don Siegelman, and was sentenced to seven years in prison.

**Freddie Mac Scandal (2003)**



The Federal Home Loan Mortgage Corporation, also known as Freddie Mac, is a US federally-backed mortgage financing giant based out of Fairfax County, Virginia. In 2003, it was discovered that Freddie Mac had misstated over $5 billion in earnings. COO David Glenn, CEO Leland Brendsel, former CFO Vaughn Clarke, and former Senior Vice Presidents Robert Dean and Nazir Dossani had intentionally overstated earnings in the company’s books. The scandal came to light due to an SEC investigation into Freddie Mac’s accounting practices. Glenn, Clarke, and Brendsel were all fired and the company was fined $125 million.

**American International Group (AIG) Scandal (2005)**



American International Group (AIG) is a US multinational insurance firm with over 88 million customers across 130 countries. In 2005, CEO Hank Greenberg was found guilty of stock price manipulation. The SEC’s investigation into Greenberg revealed a massive accounting fraud of almost $4 billion.

It was found that the company had booked loans as revenue in its books and forced clients to use insurers with whom the company had pre-existing payoff agreements. The company had also asked stock traders to inflate the company’s share price. AIG was forced to pay a $1.64 billion fine to the SEC. The company also paid $115 million to a pension fund in Louisiana and $725 million to three pension funds in Ohio.

**Lehman Brothers Scandal (2008)**



Lehman Brothers was a global financial services firm based out of New York City, New York. It was one of the largest investment banks in the United States. During the 2008 financial crisis, it was discovered that the company had hidden over $50 billion in loans. These loans had been disguised as sales using accounting loopholes.

According to an SEC investigation, the company had sold toxic assets to banks in the Cayman Islands on a short-term basis. It was understood that Lehman Brothers would buy back these assets. This gave the impression that the company had $50 billion more in cash and $50 billion less in toxic assets. In the aftermath of the scandal, Lehman Brothers went bankrupt.

**Bernie Madoff Scandal (2008)**



Bernie Madoff is a former American stockbroker who orchestrated the**biggest Ponzi scheme in history**, and also one of the largest accounting scandals. Madoff ran Bernard L. Madoff Investment Securities LLC. After the 2008 financial crisis, it was discovered that Madoff had tricked investors out of over $64.8 billion.

Madoff, his accountant, David Friehling, and second in command, Frank DiPascalli, were all convicted of the charges filed against them. The former stockbroker received a prison sentence of 150 years and was also ordered to pay $170 billion in restitution.

**Satyam Scandal (2009)**



Satyam Computer Services was an Indian IT services and back-office accounting firm based out of Hyderabad, India. In 2009, it was discovered that the company had inflated revenue by $1.5 billion, marking one of the largest accounting scandals.

An investigation by India’s Central Bureau of Investigation revealed that Founder and Chairman, Ramalinga Raju, had falsified revenues, margins, and cash balances. During the investigation, Raju admitted to the fraud in a letter to the company’s board of directors. Although Raju and his brother were charged with breach of trust, conspiracy, fraud, and falsification of records, they were released when the Central Bureau of Investigation failed to file charges on time.

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