

# Knowledge Management in Private Investigations of White-Collar Crime

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## ABSTRACT

The activity of private investigations by fraud examiners is a business of lawyers, auditors and other professionals who investigate suspicions of financial crime by white-collar criminals. Private investigations represent an interesting and unique field of knowledge management research for several reasons. A possible white-collar crime has occurred, and examiners are to figure out what, how, who and why. It is a puzzle of information pieces that has to be solved. If one piece is missing in a puzzle of thousands of pieces, the crime will never be solved. Second, knowledge cannot be shared freely. Knowledge has to be applied in a sequence of investigative steps, where witnesses and suspects are involved to the extent that the investigation makes progress. Colleagues in the firm and executives in the client organization do only get to know about a current investigation to the extent that they have a role to play in it. A senior investigating person plays the role of a knowledge manager, who monitors information flows. Only when the private investigation is completed, is knowledge from the case to be shared in the broader field of stakeholders and spectators.

## KEYWORDS

Financial Crime, Fraud Examination, Knowledge Management, Private Investigations, White-Collar Criminals

## INTRODUCTION

Financial crime investigation is a growing business area for law firms, auditing firms, consulting firms and other professional services firms. Financial crime specialists in these firms are investigating suspicions of corruption, insider trading, embezzlement, tax evasion and other kinds of financial crime. Their clients are organizations wanting to investigate facts, causes and responsibilities for incidents, negative events and general misconduct. Financial crime specialists apply intelligence, investigation, examination, analysis and hypotheses to establish facts and causes. They perform fact-finding, causality studies, change studies and suspect identifications (Machen and Richards, 2004; Morgan and Nix, 2003; Wells, 2003).

Private investigations represent an interesting and unique field of knowledge management research for several reasons. A possible white-collar crime has occurred, and examiners are to figure out what, how, who and why. It is a puzzle of information pieces, which investigators have to solve. If one piece is missing in a puzzle of thousands of pieces, investigators will never solve the crime. Second, knowledge workers cannot share knowledge freely. Examiners have to apply knowledge in a sequence of investigative steps, where witnesses and suspects are involved to the extent that the investigation makes progress. Colleagues in the firm and executives in the client organization do only get to know about a current investigation to the extent that they have a role to play in it. A senior investigating person plays the role of a knowledge manager, who monitors information flows. Only when the private investigation is completed, can examiners disclose knowledge from the case in a broader field of stakeholders, media and spectators (Gottschalk, 2015a).

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## WHITE-COLLAR CRIMINALS

A white-collar criminal is typically a member of the privileged socioeconomic class in society (Sutherland, 1940, 1949), who behaves illegally (Hansen, 2009) in non-violent acts committed for financial gain (Brightman, 2009; Bucy et al., 2009). The criminal is a person of respectability (Gottschalk, 2015b), who commits crime in a professional setting, where criminal activities are concealed and disguised in organizational work (Benson and Simpson, 2009; Bookman, 2009) by law-abiding behavior (Abadinsky, 2007). The criminal has power and influence (Kempa, 2010; Podgor, 2009), and enjoys trust from others in privileged networks (Pickett and Pickett, 2002).

Furthermore, the criminal is usually independent and irresponsible, dishonest and antisocial (Collins and Schmidt, 1993; Listwan et al., 2010), and lacks integrity and social conscience (Price and Norris, 2009). The offender is likely to exhibit narcissistic behavior (McKay et al., 2010; Ouimet, 2009, 2010) and psychopathic traits (Ragatz et al., 2012). The criminal belongs to the elite, is often wealthy and is higher educated (Heath, 2008). The criminal may be subject to strain (Langton and Piquero, 2007; Piquero et al., 2010) and have low self-control (Gottfredsson and Hirschi, 1990). The offender has legitimate access to the location in which the crime is committed, and the offender's actions have a superficial appearance of legitimacy (Benson and Simpson, 2009).

Finally, the white-collar criminal does not consider own actions as crime (Dhami, 2007; Siponen and Vance, 2010) and has no guilt feeling (Stadler and Benson, 2012). When someone detects the crime and reports the criminal, media coverage often follows (Gottschalk, 2015a). The criminal has resources to hire a top white-collar attorney (Weissmann and Block, 2010). White-collar criminals are sentenced differently and possibly milder than street criminals (Maddan et al., 2012; Schoepfer et al., 2007; Stadler et al., 2013), and there is a substantial gender gap (Robb, 2006; Simpson et al., 2012; Steffensmeier et al., 2013).

## PRIVATE FRAUD INVESTIGATIONS

When an organization wants to investigate facts, causes and responsibilities for an event, where there is suspicion of white-collar crime, fraud examiners, financial crime specialists or other investigators can carry out the investigation. A private investigation can comprise elements of intelligence work, detective work and analytic work, as we know it from police work. Characteristics that typically describe private investigations include a serious and unusual event, an extra-ordinary examination to find out what happened or why it did not happen, develop explanations, and suggest actions towards individuals and changes in systems and practices (Gottschalk, 2015c).

Criminal investigation is a goal-oriented procedure for reconstructing the past. It is a method of creating an account of what has happened, how it happened, why it happened, and who did what to make it happen or let it happen. Criminal investigation is a reconstruction of past events and sequence of events by collecting information and evidence. An investigation is designed to answer questions such as when, where, what, how, who, and why, as such questions relate to negative events in the past. For a successful reconstruction of the past in a professional manner, there is a need for knowledge management, information management, systems management, configuration management, and ethics management (Gottschalk, 2015a, 2015b).

Internal private investigations typically have the following characteristics:

- Extraordinary investigation of suspicions by goal-oriented data collection;
- Based on a mandate defined by and with the client;
- Clarify facts, analyze events, identify reasons for incidents;
- Evaluate systems failure and personal misconduct;
- Independent, careful and transparent work;
- The client is responsible for implementation of recommendations.

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