

## Outline

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## Bribery at Wal-Mart de Mexico

### Case Overview

Wal-Mart de Mexico is the largest foreign subsidiary of Wal-Mart Company. It has a high growth rate as it is developing building stores in many places at a very impressive rate. Its expansion rate has been very impressive to the extent that it has become the success story of Wal-Mart. At the moment, around 20% of Wal-Mart's stores are at Wal-Mart de Mexico (Barstow, 2012). What is not known is that a chain of unlawful activities, ranging from bribery to forgery, are hidden behind the success story of Wal-Mart de Mexico. These uncouth activities, which have triumphed and are concealed by the top management in Mexico, are brought to the limelight by a former employee who has informed a new lawyer about them.

Investigation reveals that the management of Wal-Mart de Mexico has been bribing government officials to obtain permits. The crimes are concealed by giving the expense a justifiable explanation in the books of account. Using bribery, Wal-Mart de Mexico has been able not only to get permits but also to circumvent environmental laws as well as other legal requirements (Barstow, 2012). Furthermore, Wal-Mart de Mexico has been able to increase its sales through helping selected high volume customers avoid taxes. Bribery is an act against government laws, which can lead to law suits or even closure of a subsidiary (Ranzaee & Riley, 2009). Moreover, it has been revealed that some officials are misappropriating company's funds. All these have led to not only financial loss, but also liability for legal actions, according to the laws of the government.

### **Management Responsibility Regarding Fraud Control**

It is the responsibility of managers to ensure that no fraudulent activity takes place. Shareholders employ managers so that they can help them secure company assets and, above all, ensure that the value of their investment is increased (Singh, 2007). Legally, managers are supposed to make sure that they adhere to government laws and avoid actions that may cause any loss to the firm, financial or otherwise. Unfortunately, the managers of Wal-Mart de Mexico are involved in perpetration of fraud. Instead of them being at the forefront to condemn bribing and misappropriation of company resources, they help in concealing the vice, thus encouraging it.

### **Corporate Culture and Environment that Contributed to the Fraud**

From investigation, the environment created in the company allowed flourishing of fraudulent activities. The chairman of Wal-Mart de Mexico, Mr. Eduardo Castro-Wright, has put a lot of pressure on the junior employees to ensure that expansion went forward, regardless of what the law states. As a matter of fact, he himself concealed the crimes by manipulating the corporation investigation unit. Similarly, the parent company and the top managers in the United States have never questioned the secret behind the rapid expansion of the Mexico subsidiary. On the contrary, they have praised and promoted managers of Wal-Mart de Mexico even after allegations of bribery were made against them. On the same note, managers have a lot of power in controlling who is assigned to the task of investigating any issues raised (Barstow, 2012). Consequently, the managers are exonerated from blame each time they go against the regulations of the firm.

### **Impacts of the Fraud on the Company**

Though the management of Wal-Mart, both in the United States of America and Mexico, tried to hide this information from the public and government agencies, eventually, the information has leaked and caused an immense boom in society. First and the foremost, bribery is against the Foreign Corrupt Practices Act of America as well as the laws of Mexico. As a result, there is a possibility of law suits against Wal-Mart de Mexico which can prompt legal actions (Girgenti & Hedley, 2011). On the same note, fraudulent activities usually lead to financial losses. So far, the firm has paid \$34.3 million in tax back after activities of assisting clients to avoid tax were discovered. On the same note, the firm has already paid \$24 million in bribes, money which could have been used for other projects. Furthermore, the firm risks losing public confidence, and this can lead to withdrawal of investors, thus shaking its financial stability. Since the firm has become the envy of many people, when the information reaches the public, it will destroy the public image of the firm, which can lead to decrease in sales (Singh, 2007).

### **Measures That Could Have Prevented the Fraud**

The situation that Wal-Mart has found itself in would have been avoided if caution was taken from the very beginning. Internal controls are paramount to any firm in avoiding fraudulent activities. However, Wal-Mart de Mexico lacked control. It has been noted that managers frustrated all efforts to investigate them, thus creating room for more fraud to be perpetrated. Therefore, the investigations unit should have been well staffed with more people assigned to the duty of investigating the managers (Ranzaee & Riley, 2009). Additionally, if the investigations unit had been independent and reported directly to the executive board, it could have had power to prevent the

fraudulent activities. Similarly, external auditors are necessary to uncover internal frauds. Consequently, if external auditors had been sent once in a while, they would have discovered the fraud early enough (Girgenti & Hedley, 2011). On the same note, promotion should not be pegged only on performance, but also on other aspects like legal compliance and ethical values. This will ensure that employees do not concentrate on performance at the expense of company values.

## References

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