

Lubin School of Business

Global Finance Letter: The Newsletter of the Center for Global Finance

FALL, 2004

Center for Global Finance

www.pace.edu/lubin



Director, Jorge Pinto



Assistant Director, Matthew R. Morey



Fellow, Aron A. Gottesman

For more news about the Center, or to submit a commentary for possible publication, please contact us at ksoroka@pace.edu.

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Introduction

Welcome to the inaugural edition of *Global Finance Letter: The Newsletter of the Center for Global Finance* at the Lubin School of Business, Pace University. This newsletter represents one of many new activities and communications of the Center. In addition, management of the Center has expanded to include Matthew R. Morey as Assistant Director and Aron A. Gottesman as Fellow. Morey and Gottesman join Director Jorge Pinto in managing the center's activities and communications.

In this edition of the newsletter, we detail some past and upcoming activities. We are particularly excited about the upcoming *Global Finance Leadership Forum*, the second such forum this semester. Paul Maidment, Editor of *Forbes.com* and Executive Editor of *Forbes Magazine* will interview Peter G. Peterson, Chairman and Co-Founder of the Blackstone Group. For more information, please see the announcement in this newsletter.

This newsletter also includes two commentaries by business practitioners, which we are sure you will find insightful. The first commentary, *Exploring Entrepreneurship: Lessons Not Found in Business School*, is by Stephen A. Boyko, president of Global Market Thoughtware, Inc. The second commentary, *Dissecting the Forensic Accountant: Seeing the Forest Beyond the Trees*, is by James A. DiGabriele, managing director of DiGabriele, McNulty & Co. LLC. Enjoy!

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APPOINTMENTS

Jorge Pinto, Director of the Center for Global Finance, is pleased to announce two appointments to the Center for Global Finance for the 2004-2005 academic year. These appointments follow recommendations from the Chair of the Finance and Economics Department, Dr. Michael Szenberg, and were approved by the Dean of the Lubin School of Business, Dr. Arthur Centonze.

Matthew R. Morey, Assistant Director

Dr. Matthew R. Morey has been appointed the Assistant Director of the Center for Global Finance. Dr. Morey is an associate professor and undergraduate program chair of the Department of Finance at the Lubin School of Business at Pace University. He received his undergraduate degree from the University of North Carolina at Chapel Hill and his Ph.D. from the University of California, Irvine and was a Fulbright scholar to South Asia. In 2003 Professor Morey won the Investment Management Consultants Association (IMCA) journalism award and in 2004 was asked to give expert testimony on mutual fund fraud before the U.S. House congressional subcommittee on governmental reform.

Aron A. Gottesman, Fellow

Dr. Aron A. Gottesman has been appointed a Fellow of the Center for Global Finance. Dr. Gottesman is an Assistant Professor of Finance at the Lubin School of Business at Pace University. He has a Ph.D. in finance (2001), an M.B.A. in finance and accounting (1997), and a B.A. in psychology (1994), all from York University in Toronto. He has received a number of awards, research grants, and scholarships, including a research grant and doctoral fellowship from the Canadian Social Sciences and Humanities Research Council (SSHRC). In 2001 he received an award for the best paper on financial institutions at the Northern Finance Association Meetings.

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RECENT EVENTS



Global Finance Leadership Forum

September 29, 2004

"Open Dialogue with Robert Greifeld"

Paul Maidment

Editor, Forbes.com

Executive Editor, Forbes

INTERVIEWED

ROBERT GREIFELD

PRESIDENT & CEO

THE NASDAQ STOCK MARKET, INC.



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UPCOMING EVENTS

November

- *"At the Center"*

Date: Thursday, November 4th
Speaker: Robert Rauch, Research Director, The Gramercy Group
Topic: "Hedge Funds: The Search for Alpha at the Efficient Frontier"
Time: 4:00 PM – 5:00 PM
Location: Butcher Suite, Pleasantville

- *"At the Center"*

Date: Tuesday, November 9th
Speaker: Robert Isaak, Lubin School of Business, Pace University
Topic: "The Global Gap between Rich and Poor: Trends and Policies"
Time: 12:30 PM – 1:30 PM
Location: Lecture Hall North, Pace Plaza

- *"Presidential Debate"*

Date: Wednesday, November 10th
Moderator: Vincent Catalano, President, iViewResearch, LLC
Speakers: Matt Morey, Center for Global Finance
Subodh Kumar, CIBC World Markets
Topic: "Economic Challenges for the Elected President"
Time: 12:30 PM – 1:30 PM
Location: Board Room North and South, 18th Floor, Pace Plaza

December

- *"Faculty Presentation"*

Date: Friday, December 10th
Speaker: Michael Szenberg, Distinguished Professor of Economics
Topic: "Globalization, Technology, Efficiency, and Ethics -- All in 40 Minutes"
Time: Immediately following the Lubin Faculty Council Meeting
Location: Same room as the LFC council meeting

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UPCOMING EVENTS



Global Finance Leadership Forum

December 6, 2004

“Open Dialogue with Peter Petersen”

Paul Maidment

Editor, Forbes.com

Executive Editor, *Forbes*

INTERVIEWS

Peter G. Petersen

Chairman

The Blackstone Group

Peter G. Peterson is Chairman and Co-Founder of The Blackstone Group. He is Chairman of the Council on Foreign Relations, founding Chairman of the Institute for International Economics (Washington, D.C.) and founding President of The Concord Coalition. Mr. Peterson is the Co-Chair of The Conference Board Commission on Public Trust and Private Enterprises (Co-Chaired by John Snow, currently Secretary of the Treasury). He was also Chairman of the Federal Reserve Bank of New York from 2000 to 2004. He has been awarded honorary PhD degrees by Colgate University, Georgetown University, George Washington University, Northwestern University, New School University, the University of Rochester, and Southampton College of Long Island University.

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*Commentary: Exploring
Entrepreneurship: Lessons
Not Found in Business School*

By Stephen A. Boyko

Stephen A. Boyko is president of Global Market Thoughtware, Inc., an international consulting company that specializes in economic governance issues. This commentary represents the opinion of the author, and does not represent the opinion of the Center for Global Finance or Pace University.

"Exploring Entrepreneurship" provides a roadmap for readers seeking economic independence in small-to-medium enterprises (SMEs)—the Information Age's engine of wealth creation. This article examines how best to position an individual's core competencies to garner the greatest possible comparative advantage in today's highly competitive, global economy.

Marilyn Kourilsky, Vice President of the Center of Entrepreneurial Leadership stated that "One of the ways today's youth is going to achieve a lifestyle that is better than their parents is through entrepreneurship." Ownership stimulates economic, territorial imperative incentives that enable SMEs to achieve their corporate missions. Of those who wanted to start a business, the major reasons were:

- Independence: be my own boss (41 percent),
- Achievement: earn lots of money (21 percent), and
- Self-confidence: use my skills and abilities (8 percent).¹

As the "Industrial Age" has added years to life through medical enhancements, the "Information Age" now adds life to years with commercial independence.

A recent Kauffman Institute study found a strong correlation between SME start-up rates, growth in the national GDP, and the

employment rate. At a time when large, global companies were outsourcing jobs, SMEs with fewer than 500 employees were increasing their employment to 53 percent of private workforce and accounting for 55 percent of all innovations.² Nowhere in the capital market is the net societal benefit multiplied more effectively and efficiently than the "slivers of equity" that underwrite SMEs.

The robust growth of SME-driven commerce also witnessed a parallel expansion in the private equity market. Between 1995 and 2000, venture capital funding expanded from \$6.3 billion to \$90 billion, while angel investments rose to about \$40 billion annually.³ In comparison, the public equity market rose from \$97.1 billion to \$204.5 billion for the same 5-year period.⁴ However, the level of private equity market financing proved unsustainable when the dot-com bubble burst. Venture capital and angel investing retrenched to an annual funding level of \$30-35 billion. A critical funding gap emerged, making it difficult to capitalize startup and early-stage companies requiring \$2-to-\$5 million.⁵ The funding gap is further compounded by an information gap that finds many promising innovations overlooked.⁶

Within every economic trend there exists a reflexive volume-value dynamic.⁷ At the outset, compatible and/or complementary

² Theresa Cyr, <http://www.umpi.maine.edu/~ricer/honors/cyr.htm>

³ Jeffrey Sohl, <http://www.bowne.com/newsletters/newsletter.asp?storyID=740>.

⁴ SIA.com fact sheet. The public equity market experienced a smaller retrenchment to the \$160 billion level during the same time period. It also should be noted that equity underwritings amount to approximately 5 percent of the almost \$3 trillion level of total underwritings.

⁵ Jeffrey Sohl, The private equity market: lessons learned from volatility, http://www.angelcapitalassociation.org/download/resources/Research_LessonsVolatility.pdf.

⁶ Leone, Marie, "Sell Side analysts dropping small caps", CFO.com, July 8, 2004.

⁷ In point of illustration, in the early years of NASDAQ it advertised the daily volume of its issuers whereas the NYSE advertised the capitalization of its issuers.

¹ Marilyn Kourilsky, <http://www.entre-arc/intro.htm>.

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components of the trend are grouped to achieve critical mass. Thereafter, segmentation takes place as successful niche components attain materiality.⁸ Dr. Peter Rosa likens the conflating of the terms “small-to-medium enterprise,” “small business,” and “entrepreneur” to other broad labels such as “society,” “religion,” and “culture.” He suggests that people have notions about what these terms mean, but few are able to precisely articulate them. Further he argues that “vagueness of terms may be attractive for politicians, policy makers, and even some academics. The absence of definition enables untested beliefs to be disseminated with a minimum of argument and conflict.”⁹ We now appear to be at the aggregation-segmentation function’s inflection point, given the increased societal importance of SMEs. This provides economic strategists and academics with an opportunity to revisit these concepts and refine their thinking relative to the issues involved and their level of accuracy and precision in understanding descriptive terms used for effective and efficient economic policy.

When different governance models are combined and treated as similar regimes under a one-size-fits-all rubric, error is likely. As the volume of commercial activity increases, errors become material. Cross-referencing the ownership and opportunity constructs with their related binary benchmarks produce governance models for:

- (A) Corporate firms,
- (B) Intrapreneurs,
- (C) Small businesses, and
- (D) Entrepreneurs.

The following 2x2 matrix, consisting of ownership and opportunity constructs,

profiles the related economic governance models.

Ownership:	Diverse (take a job)	Closely Held (make a job)
Opportunity	(A) Corporate firms	(C) Small business: comfort and conventionality
Status quo: with conventional products that are “bought”	(B) Corporate innovators	(D) Entrepreneurs: innovators for change
Change: with innovative products that are “sold”		

Now let’s analyze the above matrix in detail. The ownership construct is a capitalization or follow-the-money analysis. Its binary benchmarks consist of diverse holdings in corporations where an employee “takes a job” underwritten by the corporation’s capital, and a closely held corporation where an individual “makes a job” funded with his or her own capital. The opportunity construct differentiates enterprises that seek change from those that wish to preserve the status quo. There are two fundamental types of products in an economy: innovative products (i.e., a new salsa) that are “sold” in a target market¹⁰; and, conventional products (i.e., pasta) that are “bought” in a reverse market.¹¹ Manufacturer representatives provide product information and transactional infrastructure to initiate transactions of innovative goods and services that are “sold” in target markets. Conversely, conventional products, such as pasta, that are “bought” are self-selected by consumers. The sold-bought product demarcation is determined by whether transaction costs are allocated to the sales

⁸ This is often referred to as an AIDA (awareness, interests, decision, and affinity) conversion. Today, AIDA conversions are happening to a greater degree at a greater frequency. Whereas it took the radio thirty-eight years to reach critical mass of 50 million users, it took the television merely twelve years, and ecommerce only four years.

⁹ Rosa, P. (1992) “Entrepreneurial Training in the UK: Past Confusion and Future Promise” Scottish Enterprise Foundation Conference Paper Series, No. 81/92, Stirling University, Scotland, page 4.

¹⁰ A target market for new products is where a customer specifically identified with a social security or telephone number.

¹¹ A reverse market for existing products is where customers are profiled with a ZIP code or an area code.

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department (commissions) for products that are “sold” or to the marketing department (salaries) for products that are “bought.”

The governance matrix’s independent variable is the ownership construct that consists of diverse and closely held binary benchmarks. The common feature found in the diverse ownership benchmark is that employees “take a job” by completing a job application form that is underwritten by the corporation’s money. Governance similarities for Model A, corporate firms, and Model B, entrepreneurs are:

1. Management policies and procedures derived from best-practices;
2. Decision structures based on clearly delegated lines of responsibility;
3. Personal autonomy limited and controlled through standards, results, budgets, and reporting chain of command.
4. Conforming environment; and,
5. Critical mass considerations.

The ownership construct divides into those who see opportunity in terms of conventionality and those who see opportunity in terms of change. Governance Model A further refines the classification of corporate firms (versus markets) by defining them in terms of transparency and profitability. The transparency construct addresses the treatment of information. Markets tend to be “open” and develop disclosure regimes for information requirements; whereas firms are inclined to be “closed” and to guard trade secrets through intellectual property protection (i.e., patents, trademarks, and copyrights). The prime determinant for the transparency benchmark is whether “open” investment banks or “closed” commercial banks are the dominant source of financing. Firms try to annuitize transaction costs and minimize inventory costs, while markets tend to disintermediate transaction costs and minimize infrastructure costs.¹² Markets and

firms are for-profit, commercially viable enterprises that tend to employ a marginal-cost model (profits are maximized where marginal revenues equal the marginal cost of the *n*th product sold). Conversely government agencies and industrial policy regimes are self-sustainable entities that are inclined to use an average-cost model (e.g., an industrial policy enterprise such as the post office delivers a letter for the same rate, irrespective of whether the letter is to be delivered across the street or across the country). The following matrix more-fully differentiates markets and firms.

Model	Market	Firm
Characteristics		
Structure	Horizontal	Vertical
Production	Transactions	Goods and services
Transparency	Disclosure	Trade secrets
Operational costs	Infrastructure	Inventory
Transaction costs	Disintermediated	Imbedded
Reform	Regulation and/or infrastructure	Redesign products and/or retrain people

An entrepreneur is someone who displays entrepreneurial qualities as an employee within the framework of the established organization. Model B is the product of diverse ownership and someone who sees opportunity in the form of change. Intrapreneurs are likely to be new product/business development oriented. Their main task is determining whether an innovative product can be distributed through conventional channels of a large enterprise. They are problem-solvers in decentralized corporations that encourage individual initiative. Intrapreneurship is an alternative to outsourcing.

The defining feature of the closely held ownership benchmark is that owners sign a check to invest their own money to “make a

¹² Boyko, S., The Governance of Outsourcing (March 17, 2004)
<http://inthenationalinterest.com/Articles/Vol3Issue11/Vol3Issue11Boyko.html>

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job.” Governance similarities for Model C, small business, and Model D, entrepreneurs are:

1. Independent—do not like someone having authority over them;
2. Have a high need for achievement—most believe they can do the job better than anyone else can. They tackle problems immediately and are persistent in their pursuit of their objectives;
3. Self-confident when they are in control of what they are doing. They will strive for maximum responsibility and accountability;
4. Opportunistic—see different realities and strive to exert their influence; and
5. Cash-flow dependent—they like to hear the ice crackling under their feet.

Small businesses, Model C, are owned independently and provide conventional products that are “bought.” Owners of SMEs aggressively market to historical relationships with superior service in a geographic location where they have a comparative advantage. Personally, small businessmen and women tend to work to their comfort level as defined by their community standards. Their desire to preserve capital is greater than their desire to gain additional wealth. This, in part, results from their cash flow dependency and related focus on exit scenarios, access to credit, and tax minimization strategies.

“Entrepreneurs” are problem-solvers of unmet needs, and provide goods and services that consumers have always wanted to satisfy their “gee-I-wish” needs. They are highly focused individuals who concentrate almost all their energies on the immediate needs of their business. Entrepreneurs are independent actors who marshal resources and face uncertainties that change commercial ideas, processes, and/or locations. What differentiates entrepreneurs from the other governance models is that Model D’s commercial activity changes the four business drivers of scale, scope, span, and speed.

Entrepreneurs have a unique ability to conceptualize. Entrepreneurship is a way of

thinking as much as it is a business concept. It is a behavioral phenomenon, not a personality stereotype. No one has found a personality template that fits all entrepreneurs. They come in every age, gender, race, intellect, background, personality, and character.

For governance to be effective and efficient, policy makers need to tailor appropriate incentives and commands for each of the four models. SME governance simply is not a function of scaling-down top-tier commands. Many proposals designed for large corporate risk-management regimes are disproportionate when applied to SMEs. This top-tier perspective was recently illustrated by Paul Volcker and Arthur Levitt, who defended the added cost of Sarbanes-Oxley by stating that “\$5 million down and \$1.5 million a year is not too much to pay for a multibillion-dollar international company compared to how much investors have lost.”¹³ But what about the SMEs that cannot afford such imbedded costs. Do we continue to treat SMEs (small businesses that create jobs, and entrepreneurial enterprises that create jobs and innovations) and large corporations the same? Are top-tier commands disproportionate and inefficient when applied to small businesses? Do disproportionate top-tier commands become ineffective when applied to the uncertain environment of entrepreneurship? Would SMEs be better served with regulatory reform in comparison to tax relief?¹⁴

“Know thyself”—advice from the inscription on Oracle of the Delphi—continues to ring true for those presently determining their career paths. Independent individuals who can either write a check or live without a steady check will find SME ownership attractive. Whether you are conventional small businessperson looking for a comfortable life style or an innovative entrepreneur seeking to change the world, do not become a round peg in a square hole. The better positioned one’s core

¹³ June 14, 2002 Wall Street Journal, page A16.

¹⁴ Boyko, S. and Gottesman, A., “Small is Beautiful,” The National Interest, Number 77 – Fall 2004.

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competencies are, related to the realities of comparative advantages, the greater your likelihood of success.

Commentary: Dissecting the Forensic Accountant: Seeing The Forest Beyond the Trees

By James A. DiGabriele

James A. DiGabriele is managing director of DiGabriele, McNulty & Co. LLC, and specializes in forensic accounting. He is also completing his doctorate at the Lubin School of Business, Pace University. This commentary represents the opinion of the author, and does not represent the opinion of the Center for Global Finance or Pace University.

A forensic accountant can provide invaluable support to businesses that seek to combat fraud through detection and prevention. Proactive companies looking to reduce compliance risk and litigation risk are turning to forensic accountants for the answers. Since corporations are often the victims of abuse and fraud by employees, the need for practical solutions in the current corporate environment is paramount.

Forensic Accounting integrates accounting, auditing and investigative skills with a blend of economics and finance. In the end, the Forensic Accountant, provides an analysis that is suitable to the court, which will form the basis for dialogue and ultimately dispute resolution.

Forensic Accountants, utilize a unique skill set that includes traditional accounting and auditing proficiency. In addition, an equally critical requirement of a Forensic Accountant is to be able to master deductive reasoning. Deductive analysis adds the investigative dimension that is so critical to a forensic analysis.

Forensic Accountants should be trained to look beyond the numbers and deal with the business reality of the situation. Forensic Accountants become involved in a wide

range of investigations, spanning many different settings. The practical and thorough analysis that a Forensic Accountant brings to a case aids in uncovering trends that bring the relevant issues to the forefront. Unlike traditional auditing, which is designed to provide an opinion on financial statements prepared by the company's management, forensic accounting is designed to take aim at the indicators, or red flags, of fraud and other financial contradictions that do not fit within the normal course of a particular assignment.

Interesting enough, the development of appropriate personality traits is one of the most critical requirements in practicing forensic accounting. A well-rounded Forensic Accountant should be one-third businessman, one-third investigator and one-third accountant. A forensic accountant must maintain flawless professional credentials, which usually will be challenged on the witness stand. The courtroom is no place to discover limitations in education or experience. Courtroom presentation skills are advantageous to those presenting knowledge considered beyond general knowledge.

The following personal attributes should help develop successful forensic accountants:

1. **CURIOSITY**-Forensic accountants should be interested in and curious about all relevant matters. By using professional skepticism in their activities, they should notice, for example, the documents' physical details, the reasonableness of accounting entries, hints or rumors, and physical hunches.
2. **PERSISTENCE**-By going beyond Generally Accepted Accounting Principles and Generally Accepted Auditing Standards, a successful forensic accountants should investigate everything thoroughly until they comprehend it fully.
3. **CREATIVITY**-Besides mastering Generally Accepted Accounting Principles and Generally Accepted Auditing Standards, forensic accountants should be inquisitive

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and creative, paying attention to details and focusing on the "big picture."

4. COMMON BUSINESS SENSE-A forensic accountant should investigate each situation on its own merits, analyzing both "big-picture" and "detailed" issues. They should also be cool under pressure, possess good business sense and judgment, and demonstrate clear, analytical and logical thinking.

5. COMMUNICATION SKILLS-Successful forensic accountants must communicate effectively both in speech and in writing in order to present and organize their charts, graphs, schedules and other bases of opinion to the relevant parties. They should also understand human emotions and recognize potential behaviors to their findings, ranging from a "simple dismissal" to "violence," often mastering caution and tact.

Typically, Forensic Accountants work of the following assignments:

Shareholders' and Partnership Disputes

These assignments often involve a detailed analysis of numerous years accounting records to quantify the issues in dispute. Issues that usually arise in these type of assignments are; disparities in compensation and benefits received by each of the disputing shareholders or partners and the valuation of the shareholders or partners interest.

Personal Injury Claims

A Forensic Accountant is often asked to quantify the economic losses resulting from a personal injury that results in a reduction in earning capacity. In addition, economic losses can also results from wrongful termination, harassment and discrimination. Similarly a Forensic Accountant can assist calculating the ensuing economic damages.

Business Interruption Insurance Claims

These assignments involve a detailed review of the policy to investigate coverage

issues and the appropriate method of calculating the loss. A Forensic Accountant is often asked to assist in this process by the insured or an insurance company.

Business/Employee Fraud Investigations

Business investigations involve the tracing of funds, asset identification and recovery, forensic intelligence gathering and due diligence reviews.

Employee fraud investigations often involve procedures to determine the existence, nature and extent of fraud and may concern the identification of a perpetrator. Examples of these of assignments include; employee dishonesty (fidelity) claims where an employee may have misappropriated funds and concealed assets.

Matrimonial Disputes

Matrimonial disputes from a Forensic Accounting point-of-view include the following; valuation of a closely held company, tracing and locating marital assets of the marital estate, a lifestyle analysis, assisting in the equitable distribution process and expert testimony.

Business Economic Losses

These assignments include business economic losses such as; contract disputes, construction claims, product liability claims, trademark and patent infringements and losses stemming from a breach of a non-competition agreement.

Professional Negligence

A breach of Generally Accepted Accounting Principles or Generally Accepted Auditing Standards or other standards of practice occurred; and Loss Quantification.

Mediation and Arbitration

Forensic Accountants have sought out special training and become involved in alternative dispute resolution (ADR). ADR services include both mediation and arbitration and are designed to help

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individuals and businesses resolve disputes with minimal disruption and in a timely fashion.

Litigation support and investigation or fraud accounting

Forensic accounting is divided into three areas of specialization: Litigation support, investigation/fraud accounting and expert witness.

Litigation Support

Litigation support specialists are concerned with business valuation, economic damages, future earnings' evaluation, income and expense analysis and, testimony as expert witness. This area of Forensic Accounting integrates the disciplines of accounting, economics and finance.

In litigation support sector of forensic accounting, the forensic accountant usually assists in obtaining documentation to support or reject a claim. The Forensic Accountant may be called to review documentation in order to give an assessment of the case to the legal team and identify areas where a loss occurred. The forensic accountant may also be asked to get involved during the discovery stage to help formulate questions for the economic issues in the case. In addition, the Forensic Accountants are usually asked to review the report of the opposing expert witness and provide an evaluation of its strengths and weaknesses. During trial phase, the Forensic Accountant will serve as an expert witness, and assist in providing questions for cross-examination of the opposing expert.

Litigation support consultants participate in legal actions where financial information requires critical analysis for possible wrongful actions. This process investigates the relevance, adequacy and accuracy of information pertinent to legal actions including procedures for evaluating and interpreting financial information likely to be presented in court.

Investigation/fraud accounting

Fraud accountants apply their traditional auditing skills with deductive reasoning to investigate areas of financial misconduct. Typically a fraud accounting assignment would result from a client's suspicion that there is a fraud. Fraud accountants must maintain a particular focus to detect fraud effectively, which comes with age, training, self-discipline and understanding that anyone can commit fraud, if certain factors exist. These factors include: 1) environmental pressures, such as excessive debt, financial losses, and unrealistic company goals and objectives; 2) severe personal and professional commitments; and 3) lack of strong personal character traits such as impeccable integrity and honesty. Forensic accountants should skeptically analyze potential occurrences and motives for employee dishonesty, including thinking like a criminal.

Expert Witness

Most forensic accounting engagements conclude in serving as an expert witness. The behavior of the expert witness, including creativity, calmness and competence, and communication skills during cross-examination are crucial. Opposing lawyers often seek to discredit testimony by challenging the expert's knowledge, assumptions, experience or analysis of data, thereby requiring forensic accountants to recite related pronouncements of authoritative bodies. Expert witnesses, must objectively, independently and truthfully communicate their findings.

Conclusion

Being a forensic accountant involves grueling detail, and is tedious and difficult. One has to grasp intricate concepts. A forensic accountant investigating a case must develop a case theory incorporating scientific methodology. This approach includes identifying the problem, collecting evidence and data, analyzing the data to test the hypothesis, and drawing a conclusion. In conducting an investigation, a forensic accountant applies understanding of law and rules of evidence. A forensic accountant must possess a basic

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understanding of the legal process and legal issues including the rules of evidence with a high level of skepticism and the persistence of a detective to thoroughly examine situations for red flags with superior investigative skills.

Unlike auditing, Forensic Accounting is designed to utilize critical and analytical investigative skills beyond standardized accounting thought. Auditing generally relies on a predetermined set of tests and procedures that are performed annually based on the auditors' assessment of risk; the auditing process relies on the representations of management and the internal controls of the company that ultimately culminates in an opinion on a set of financial statements. Auditing uses checklists and preconceived questions and procedures, forensic accounting takes an "out of the box" approach that encompasses a broad set of skills and personality traits. Forensic accountants have become the private investigators or detectives of corporate culture. An auditor may be a corporate watchdog, but a forensic accountant is a financial bloodhound.