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RESEARCH ARTICLE

BEYOND THE FRAUD TRIANGLE; WHY PEOPLE ENGAGE IN PECUNIARY CRIMES?

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Abstract

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Introduction:-

Research on fraud in accounting is firmly placed in the context of auditing which emphasises audit risk and the role of auditing and internal controls in the prevention and detection of fraud (Asare and Wright, 2004; Bierstaker, et al., 2006; Moyes and Baker, 2003; Patterson and Noel, 2003; Payne and Ramsay, 2005; Pinkus, 1989; Ramos, 2003). Research that examines the practice and effectiveness of fraud prevention and detection is premised on the auditor's obligation to detect materially misstated financial statements. However they do not realize that a study of factors relating to pecuniary crimes is the most important things in fraud detection (Maulidi, 2016). Thus, this paper will analyse them in a difference way beyond fraud triangle as proposed by Donald Cressy (1950).

Factors Related to White-Collar Crime:-

Studies in white-collar offenses have been carried out mostly from either differential association theory (Piquero et al., 2005; Nicholas, 2000; Benson, 1985; Sutherland, 1939; Clinard, 1990) or social structure and strain theories (Zahra et al., 2007; Durkheim, 1965) to enlighten unlawful conducts. Weisburd et al. (1995), outlined that study on these crimes have broadly concentrated on the organization contexts rather than the perpetrators perspective. Nevertheless, recently a research undertaken by Dellaportas (2013), exclusively attempted to focus on offenders' inner thoughts and belief processes. In that study, wrongdoers commonly employ their power and authority to betray their fellow and entities after those individuals are threatened with a distinctive catastrophe.

Generally, contemporary understanding on why individuals perpetrate fraudulent activities has been expressed in the concept of fraud triangle, in which that conceptual fraud framework implanted in the study of psychology constitutes a result of industrializing work from the original exertion of Cressey (1950). He claimed that exclusive fraud syndicates have been primarily driven by what fraudsters referred to, which is broadly common known as 'a non-shareable problem'. It happens commonly when individuals are confronted with personal crisis or a problem and are unable to share their concerns with fellow workers or friends due to the disgrace, and the offenders associate with the behaviors and the social sanctions or consequential results of legal when their illicit behaviors are detected. Cressey (1950) also noted that admission of fault or poor judgments, loss of status, and financial distress, have the probable effects to emerge a non-sharable problem which begets a person to clandestinely overcome their issues by stealing to circumvent losing face.

Furthermore, hypotheses as proposed by Cressey's (1950) later became a recognized framework which is well-acknowledged as the fraud triangle theory as portrayed in figure 1 below. However other scholars in that fraud

framework tried to complement enthusiasm factors as illustrated by Cressey to the notion of rationalization and opportunity for elucidating the advent of fraudulent acts (Coenan, 2008; Albrecht et al., 2016). Dellaportas (2013), in his study, synthesized those notions into a short understandable explanation that opportunistic triggers grant the mean to follow through with the deliberate desire for committing wrongdoing; pressure delivers the encouragement of perpetrating wrongdoing due monetary crisis; and rationalization encourages the perpetrators to address the cognitive dissonance related to their conduct. In order to outline factors motivating wrongdoers to commit fraud therefore those three elements of fraud triangle will be explained in detail as follow.

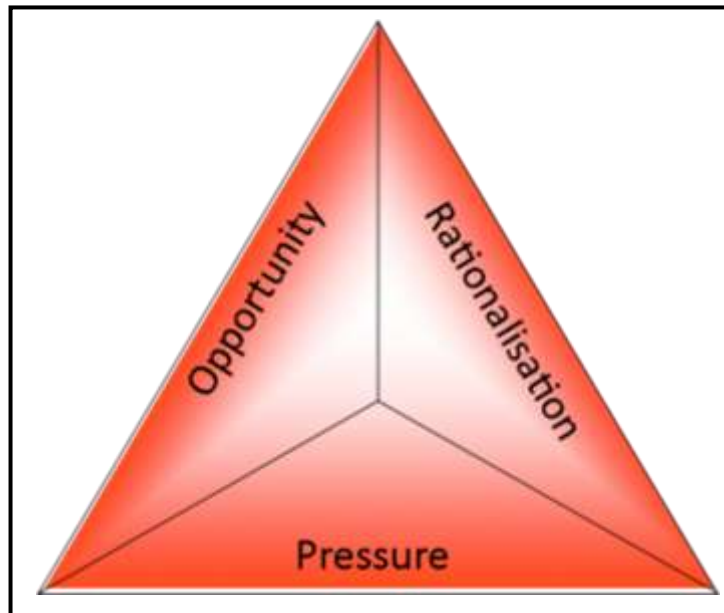


Figure 1:- Fraud Triangle

Pressure to perpetrate occupational fraud:-

The existing literatures and studies on the pressure to perpetrate occupational fraud can be generally categorized into non-monetary pressure and monetary pressure (Fitzsimons, 2009; Albrecht et al., 2016). Non-financial pressure can be further classified into (a) work-related pressure (Peterson and Gibson, 2003; Holton, 2009; and Bartlett et al., 2004); (b) pressure related to people who want to live on extravagant lifestyles/ living beyond one's means (Rezaee, 2005; Neu et al., 2013; Dellaportas, 2014); and (c) pressure related to drug addiction and gambling (Kelly and Hartley, 2010; Howe and Malgwi, 2006). In organization context, financial strain, namely a failed market investments or distress business, whether it ascends from misfortune or recklessness, is the catalyst which mobilizes numerous individual to perpetrate fraud (Cressey, 1950). It is also consistently suggested by Brenna and McGrath (2007) that incentive or bonus can attractively drive management to misstate intentionally a published financial reporting aimed to retain stakeholders' judgment on that organization.

Furthermore, work-related non-financial pressure factors which lead individuals to commit fraud comprise employees' perceived inequities and dissatisfaction in the workplace (AIC and PwC, 2003 and Hollinger and Clark, 1983). Similarly, other studies found unfair treatment associated with remuneration, a lack of acknowledgment and unfair promotion quoted as concrete motives for employees to perpetrate wrongdoing (Bartlett et al., 2004). Those studies have academically strengthened prior one carried out by Baucus, (1994), chronicling that workforces witnessing dissatisfaction will have diminutive deference for the institution they work and commonly commit unlawful conducts as an act of revenge against that organization. Apart from those concerns, however, the most dangerous pressure motivating someone to commit fraud is the offenders' desire for material possessions. Empirical evidence suggested that many wrongdoers get involved in the risky behaviours predominantly due to a desire to own more affluence than one can afford and egocentric motives (Dellaportas, 2013). Hence, Dellaportas, (2013) in that point, noted that wrongdoers for this group are very aggressive and tremendously self-motivated, and their inherent disposition traits which push them more likely to involve in perilous behaviours and in that zone they are ultimately pressed to perpetrate wrongdoing.

Opportunity to Perpetrate Occupational Fraud:-

An opportunistic trigger that allows an individual to perpetrate fraud, to obscure it and to evade being penalized is the second perilous component of fraud triangle (Cressey, 1953). A perceived opportunity to enact wrongdoing arises in the organization when individuals who have high level of trust betray and abuse those trust, in which it is intended to deal with a non-sharable monetary burden (Cressey, 1953). Opportunities to commit fraudulent activities, in auditing works, have been observed in the background of poor organizational control and it, according to KPMG (KPMG, 2010; KPMG, 2008), is primary element attributable to fraud (Strand et al., 2010; Kelly and Hartley, 2010; Dellaportas, 2013; Albrecht et al., 2016). Therefore, the opportunity to engage in wrongdoing, in this point, arises since the organization's system of structure control weakens, the supremacy of its audit function less become effective and its corporate governance deteriorates (Neu et al., 2013; Rezaee, 2005). In other expressions, the likelihood of fraud risks would be greater and unavoidable if organization overrides its system of internal control (Albrecht et al., 2016).

Moreover, in the criminology literatures for explanation of opportunity to perpetrate fraud, Donegan and Gagon (2008) and Colvin et al, (2002) stated that occupational offenders or criminal behaviors are strongly associated with social support and coercion. Donegan and Gagon (2008) argued that someone, who does not have legitimate right for accessing to social support from appropriate/ legal source, might attempt to find social support from unlawful source. Thus, in this point, it can be assumed that in the absenteeism of social support, someone may be more likely to approach a felonious conduct by studying to deceive others in struggle to obtain social support. Separately, as proposed by Kranacher et al, (2011) even though fraud deterrence is costly to be implemented, it does not guarantee an adequate level of compliance with laws, because the vast majority of individuals committing white-collar crime, in criminology dimension, view compliance or noncompliance with laws as *just* fear of punishment.

Rationalization to Perpetrate Occupational Fraud:-

Rationalization is the mechanism for expressing feelings by occupational perpetrators to justify any guilt and they commonly claim that the unlawful conducts is okay in their mind (Dellaportas, 2014; Anand et al., 2004; Duffield and Grabosky, 2001). Significantly, the rationalization is an indispensable constituent of the wrongdoing *before* it takes place (Kranacher et al, 2011). Ramamoorti (2008) provides instances of customary rationalization wielded by occupational perpetrators to justify their fraudulent activities. Those rationalizations, as illustrated by Cressey, (1953) and Ramamoorti (2008) are also reinforced by Coenen (2008), pointing out that offenders convince themselves that misconducts is tolerable by manufacturing "*excuses*" in their mind.

Beyond accounting matters, the literatures of social psychology and criminology also provide explanation for rationalization. The criminologists contended that criminals in neutralization theory normally employ the approaches of neutralization to rationalize their behaviors (Sykes and Martza, 1957). The techniques of neutralization are always used to shield someone from her or his own value of internal surrounding the existence of guilt (Stout, 2007; Foucault, 1969). Murphy and Dacin (2011), based on theory of moral disengagement (Bandura, 1999), theory of cognitive dissonance (Festinger, 1957), pointed out three physiological pathways to wrongdoing nestled in rationalization/ attitude such as (a), lack of awareness, (b), intuition supplemented by rationalization, and (c), reasoning (the perceived benefits outweigh the cost). Such rationalizations therefore allow offenders to place themselves as ethically in charge persons being forced to conduct dishonestly (Anand et al, 2004).

The Psychology of Fraudsters:-

At first glance, unethical behaviour is not a rare event, nor is it prevalent among only certain segments of society. A psychological explanation for fraud would appear simple—greed and dishonesty. Such an explanation is, however, overly simplistic. There are many in society who are aggressively acquisitive but generally law abiding. Moreover, not all dishonest people commit fraud. To date, behavioural scientists have been unable to identify a psychological characteristic that serves as a valid and reliable marker of the propensity of an individual to commit fraud.

There are, nevertheless, numerous examples of attempts to distinguish people who will commit fraud (or who are predisposed to commit fraud given the right situation) from those who will not. These attempts include "honesty" or "integrity" testing aimed at measuring the trustworthiness of potential employees (Sackett and Harris 1984; Ones, Viswesvaran and Schmidt 1993). However, desperation or the furthering of some deep personal belief seem unlikely motivators in situations involving the failure to pay parking tickets, cheating on income taxes, the pilfering of office supplies, and other such minor moral indiscretions. In fact, research on employee theft does not support the theory that workers steal, in general, because they need the money (Murphy, 1993). It is such relatively small, non duress-

driven social breaches that should be most affected by self-presentation and self-esteem influences, and yet, these are the types of immoral behaviours that are the most common. For example, three out of four shoplifters can afford to buy the merchandise they have taken, and many are even caught carrying enough money to pay for the lifted items (Francis, 1979). Surely, one's self-esteem and moral integrity must be worth more than some small item from a store that could be more easily bought than stolen.

Such erroneous characterizations of actions place their performance in accord with people's prosocial motivations. As a result, self-esteem protection processes are less likely to be activated in opposition to the action being considered. In addition, these distortions allow people to act contrary to the dictates of their values or attitudes without experiencing cognitive dissonance or any of the other discomforts that have been associated with perceived inconsistencies between one's attitudes and behaviour, such as embarrassment (Abelson, 1983). For example, work in the area of helping behaviour (Schwartz, 1977) suggests that a high personal cost associated with engaging in a particular helping behaviour may lead people to form distorted judgments regarding the reality of the need or their personal responsibility to help in a given situation. This defensive denial (Schwartz, 1977) can be such that the conditions for prosocial moral norm activation are not met, which in turn, can lead to a decision not to help another, even among people who possess the prerequisite values and attitudes (Tyler, et al, 1982).

To be sure, the notion of motivated cognition is not new, but it seems to have been used mainly to explain nonmoral phenomena such as self-serving causal attributions, attitude change, lack of compliance with health promoting behaviour, and the failure to help others, usually in situations involving personal cost (Kunda, 1990). One consistent exception is cognitive dissonance theory, which is often studied in the context of getting subjects to lie to another person or to act contrary to their previously stated moral convictions with potentially harmful consequences (see, e.g., Festinger & Carlsmith, 1959; Goethals, et al, 1979). Dissonance, however, occurs after a person has committed to behaviour, usually as a result of subtle but effective social pressure on the part of the experimenter. Because of its post hoc etiology, cognitive dissonance is not useful in accounting for how people initially decide to perform actions contrary to their own values. In fact, fear of dissonance, that is, of feeling hypocritical, should be another compelling reason to avoid ethical indiscretions.

The Fraud Triangle generally considers an individual, acting alone. But collusion, including management override of controls, is a central element to most complex and costly frauds and financial crimes (ACFE 2010). Parties involved in collusion may be individuals within an organization, individuals across organizations, or multiple organizations, and often span multiple jurisdictions—local, state, federal, and international. The ACFE's (2008, 2009) Report to the Nation indicates that when collusion is involved, dollar amounts associated with fraud losses increase dramatically. The losses caused by individual predators can be substantial, but when those individuals work in concert with others, the damage can be devastating and far more pervasive.

Conclusion:-

A review of the literature has found that the literature is rich with accounts that highlight the ethical problems facing professionals in their workplaces. While earlier criminologists and sociologists examined the broad topic of crime, focusing mainly on three aspects, this paper attempts to introduce additional behaviour and decision models that affect rationalization, perceived opportunity, and financial pressure. In addition, this paper emphasizes in particular the psychological and sociological constructs as critical elements for future fraud research. It is important also to understand that early work such as the Fraud Triangle has been expanded and enhanced, as outlined in this article. The continual exploration and discussion of fraud, its causes, and controls are important to the development of accounting, audit, risk management, and anti-fraud professionals, and are worthy of consideration when balancing educational curricula and course content.

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