

Personal Ethics and Fraudster Motivation: The Missing Link in Fraud Triangle and Fraud Diamond Theories

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Abstract

Fraud in the society is like an opportunistic infection that bursts forth when greed meet the possibility of deception. Scholar has over time argued that prevention is better than cure. That it is better to prevent incidence of fraud rather than looking for culprit.

Over time, Cressy's Fraud Triangle Theory and recently Fraud Diamond Theory by Wolfe and Hermanson has been used by Auditors to understand the motivation of a fraudster, however, recent happenings has shown that the two aforementioned models are not adequate enough to understand the motivation of a fraudster.

The position of this paper is that personal ethics is a key factor in fraudster's motivation. Hence, this present study thus comes up with a new model called Fraud Pentagon Model. This new model is an extension of the two afore-mentioned models. It has succeeded in filling the missing link in the previous models.

Keywords: Fraud, Personal Ethics, Fraud Triangle, Fraud Diamond, Fraud Pentagon.

1. Introduction

Fraud in the corporate world has been extensively studied, resulting in well established theoretical framework. The general view expressed in many of these fraud-related studies is that fraud prevention is more cost effective than fraud detection. It is less expensive and more effective to prevent fraud from happening than detect it after the occurrence. Usually, by the time the fraud is discovered, the money is unrecoverable or the chance to recover the full amount of the loss is very slim (Abdullahi and Mansor, 2015)

According to Thanasak (2013) before making any effort to reduce fraud and manage the risks proactively, it is important for the business organization to identify the factors leading to fraudulent behaviour by understanding who are the fraudsters, when and why fraud are committed. According to Abdullahi and Mansor (2015), various theories have attempted to explain the causes of fraud and the two most cited theories are the Fraud

Triangle Theory (FTT) of Cressey (1950) and the Fraud Diamond Theory (FDT) of Wolfe and Hermanson (2004). Both of them identify the element that lead perpetrators to commit fraud. According to Dorminey et al (2010), the origin of the FTT dates to the work of Edwin Sutherland (1939) who coined the term white-collar crime, and Cressey was one of sutherland's former student. Cressey (1950) research later became known as the Fraud Triangle Theory (FTT).

This theory consists of three elements that are necessary for fraud to occur: (i) perceived pressure (ii) opportunity and (iii) rationalization. David T. Wolfe and Dana R. Hemanson strongly believed that the Cressy Fraud Triangle theory has to be enhanced to improve both fraud prevention and detection, hence, they introduce additional element to the one mentioned in the FTT. Based on this, additional element which they called capability, they came up with what is now regarded as the Fraud Diamond Theory (FDT). According to them capability is very important for any fraud to take place. However, recent happening in the corporate world, with regard to fraud has shown that the two aforementioned theories are grossly inadequate to explain the motivation of a fraudster.

Although, Cressey's fraud triangle was supported and used by Audit Regulators - (ASB and IAASB), critics have argued that the model cannot solve the fraud problem alone because two sides of the fraud triangle, pressure and rationalization cannot be easily observed (Dorminey et al 2010 as cited in Kazsem and Higson 2012). Again the fraud diamond theory by Wolfe and Hermanson (2004) also has its shortcoming, though the fraud diamond theory added the forth variable '*capability*' to the fraud triangle and filled the gap in other theories of fraud, the model alone is an inadequate tool for investigating, deterring, preventing and detecting frauds (Gbegi and Adebisi, 2013).

This is because an important factor like personal ethics of the fraud perpetrator was totally ignored in the two theories. In the society, personal ethics help define people's core thinking; what individual love, hate or are just indifferent to.

Therefore this present study aimed at providing the missing link in the two aforementioned theories. The study thus suggests another model called "**Fraud Pentagon Model**". This model will no doubt contribute to the existing literature by providing the missing link in fraud, prevention, detection and deterrence. The remaining part of this paper is organized as follows:

The next section presents the theoretical framework and relevant literature review, which is based on the Fraud Triangle Theory (FTT) and Fraud Diamond Theory (FDT). The next sections discuss the new Fraud Pentagon Model and some directions for future research on the model.

2. The Theoretical Framework And Literature Review

2.1 Personal Ethics

Coming from the Greek, ethos the term ethics refers to the assembly of the norms that regulates the moral behaviour of individual in society, norms that should be observed through the power of habit that are in the society. The oxford dictionary defines ethics as "the moral principle that governs a person's behaviour or how an activity is conducted". The synonyms of ethics as per Collins Thesaurus are - *conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards*. Ethics refers to well-founded standards of right and wrong that prescribe what human ought to do, usually in terms of rights, obligations, benefit, to society, fairness or specific virtues (Sorunke et al 2014).

There are numerous conceptual definitions of the term Personal ethics but their essence is not different. Personal ethics, as a particular form of ethics, refers to the moral principles and rules that governs the action of an individual. Personal ethics is any ethical system or doctrine that has been chosen as a moral guide in the particular life of an agent. Personal ethics in this sense is defined in terms of individual commitment to a moral life in opposition to amoralism (Witold ND).

Individual personal ethics consist of integrity, credibility, fairness, transparency, prudence courage, temperance and justices. These are the so-called ethical values which help to establish and maintain the standards that delineate the “right” things to do and the things “worth doing” such ethical values influence individuals choice and lead to action which an individual support or opposed. The understanding and the observance of these ethical values, their rejection or support depends on individual personal ethics.

2.2 Fraud

Fraud has been widely defined in literature by scholars and experts. Fraud used as a noun means wrongful or criminal deception intended to result in financial or personal gain or a person or things intended to deceive others, typically by unjustifiably claiming or being credited with accomplishment or qualities. A more detailed definition of fraud according to Kalubanga et al (2013) is “an act or course of deception, an intentional concealment, omission or perversion of truth to (1) gain unlawful or unfair advantage (2) induce another to part with some valuable items or surrender a legal right or (3) inflict injury in some manners.” Merriam Webster Dictionary of Law (1996) as quoted in Manurung and Hadian (2013), fraud can be defined as “Any act expression, omission or concealment calculated to deceive another to his or her disadvantage specifically, a misrepresentation or concealment with reference to some fact material to a transaction that is made with knowledge of its falsity. And or in reckless disregard of its truth or falsity and worth the intent to deceive another and that is reasonably relied on by the another who is injured thereby”

A fraudster is an egoistic someone who is intelligent, experienced and knowledgeable about controls but has a low personal ethics. An egoistic person refers to someone who is “driven to succeed at all cost, self-absorbed, self-confident and narcissistic (Duffield and Grabosky, 2001). While a low personal ethic person refers to someone who is morally bankrupt and does not see anything wrong in going against the norms of the society.

2.3 The Fraud Triangle Theory

In the broadcast sense, the causes of fraud are summarized in an axiom known as the Fraud Triangle, developed from the work of Donald Cressey. The three elements of the fraud triangle are: pressure or motive, opportunity and rationalization.

Cressey concluded that individuals commit fraud when the three factors are present:

- A financial need that cannot be shared (motive)
- A perceived opportunity for illicit gain or gain improper access to fund (opportunity)
- A personal justification of the act to themselves (Rationalization)

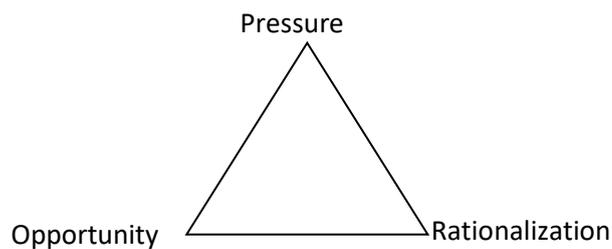


Figure 1: The Fraud Triangle

Source: Cressey (1953)

The three elements of fraud summarized above by Cressey (1953) are commonly presented in a diagram shown in figure 1. The top element of the diagram represents the pressure or motive to commit the fraudulent act while the two element at the bottom are perceived opportunity and rationalization. (Wells 2011 cited in Abdullahi and Mansor, 2015). Over the years Cressey ideas has become well-known as the Fraud Triangle Theory (FTT)

2.4 The Fraud Diamond Theory.

Fraud diamond theory which is an expanded version of Cressey Fraud Triangle was introduced in 2004 by Wolfe and Hermanson, in which they added another variable known as “**capabilities**” to the fraud triangle. According to Wolfe and Hermanson (2004) cited in Kassem and Higson (2012) many frauds would not have occurred without the right person with right capabilities implementing the details of the fraud. In other words, the potential fraud perpetrator must have the skills and ability to commit fraud. According to Wolfe and Hermanson (2004) cited in Abdullahi and Mansor (2015), opportunity opens the doorway to fraud, and incentive (i.e. pressure) and rationalization lead a person towards the door. However, capability enables the person to recognize the open doorway as an opportunity and to take advantages of it by walking through repeatedly.

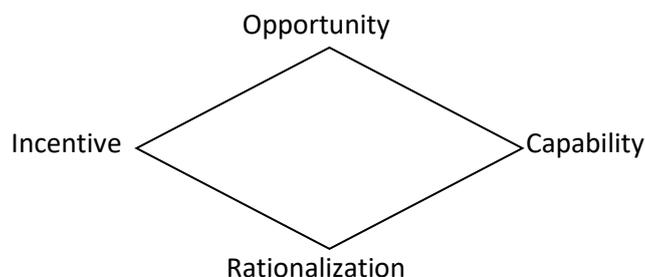


Figure 2: The Fraud Diamond

Source: Wolfe and Hermanson (2004)

3. Methodology

This is an exploratory research seeking to determine whether personal ethics can be a key variable in fraudster’s motivation to commit fraud. Primary data we collected from sample of respondents consists of 21 External Auditors, 17 Internal Auditors, 23 Fraud Investigators from Economic and Financial Crime Commission (EFCC), 18 Fraud Investigators from Independent Corrupt Practices Commission (ICPC) and 16 Police Fraud Investigators from the Nigerian Police Force, who are purposively selected for the study. All the respondents have at one point or the other been involved in fraud investigation in both public

and private enterprises in the last five years. The questionnaire used was the five point scaled questionnaire (Likert type) consisting of few but relevant questions to the study.

From apriori consideration, it is expected that personal ethics will not be a key variable in fraudster's motivation to commit fraud.

4.0 Survey Findings

The survey investigates the impact of personal ethics in fraudster's motivation to commit fraud from the investigator's perspective. Their responses were summarized below:

The question asked the respondents about their perception of fraudulent act revealed that 86% of the respondent perceived fraudulent act as a deviant behaviour usually exhibited by people with low personal ethics. The question on the respondents' perception of fraudster revealed that 76% of the respondents perceived fraudster as an egoistic person who is intelligent and knowledgeable about controls but has a low personal ethics. 83% of the respondent agreed that a person with low personal ethics has a higher propensity / motivation to commit fraud than a person with higher personal ethics. 68% of the respondents agreed that personal ethics is a strong variable in fraud perpetration. 73 percent of surveyed investigators were strongly of the opinion that need or no need an individual with low personal ethics will not see anything wrong in committing fraud. 52 percent of the respondents were of the opinion that without perceived opportunity an individual with low personal ethics will commit fraud. 81 percent of the respondents were strongly of the opinion that a person with low personal ethics that is determined to commit fraud but lacks the capability do so will seek for collaboration to achieve his/her aim. While 73% of the respondent were strongly of the opinion that rationalization as justification of fraudulent behaviour is as a result of an individual lack of personal integrity attributable to level of an individual personal ethics.

Based on the above responses from the respondents, it is abundantly obvious that personal ethics is a key motivating factor in fraudster desire to commit fraud. This no doubt is contrary to the apriori expectation of this study. In particular, the survey reveals that an individual with high personal ethics will likely not commit fraud even when in need/under pressure. Whereas, need or no need, a person with low personal ethics will commit fraud. For example, a stinking rich public official with low personal ethics will commit fraud just to keep his/her bank loaded, not because there is need for the looting. The pressure/need here is largely motivated by greed rather than sincere need. Greed is more pronounced in an individual with low personal ethics. An individual with high personal ethics will likely not exhibit greed. On the issue of capability which is added to the fraud triangle theory by Wolfe and Hermanson (2004) to come up with fraud diamond theory, this present study clearly reveals that an individual with low personal ethics that is determined to commit fraud will seek collaboration with others (either within the organization or outside the organization particularly when it concerns a large-scale or long term fraud) to commit fraud.

Thus for better understanding why people commit fraud, personal ethics of an individual is a key issue. The new fraud pentagon model as shown below indeed captured this important variable.

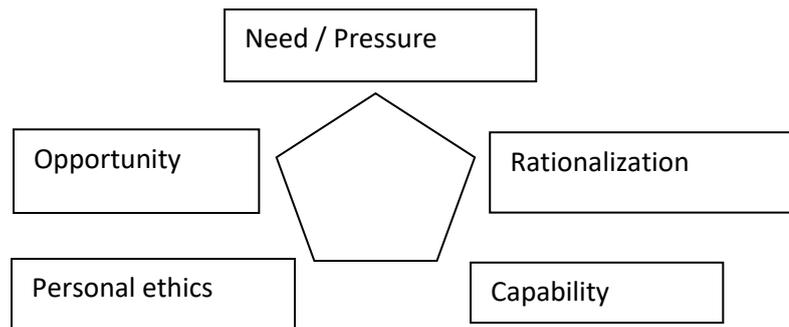


Figure 3: The New Fraud Pentagon Model

The major findings from the survey form the cornerstone of the new fraud pentagon model. This new model has been able to provide the missing link in Cressey's Fraud Theory Wolfe and Hermanson's Fraud Diamond Theory. Hence, the above model should be regarded as an extension of the above theories.

5.0 Conclusion And Reflections

This current paper aims at examining key variables in the fraudster motivation to commit fraud. It reviews Cressey's Fraud Triangle Model and relates it to Wolfe and Hermanson's Fraud Diamond Model, bring to the front burner the short-coming of the two models and propose a new model which is an extension to Cressey's Fraud Triangle and Wolfe and Hermanson's Fraud Diamond Model integrate a new variable personal ethics into the previous model to arrive at the new Fraud Pentagon Model. This new model will no doubt helps fraud examiners and investigator to understand why some certain people engaged in fraudulent act.

With this new Fraud Pentagon Model, this present study has no doubt contribute to knowledge by bridging the gap in the existing models through the introduction of "personal ethics" which other models did not consider as important.

This study has also added to the body of existing knowledge and a guide for further research on the subject matter.

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