ABCs and Criminogenic Markets: Analyzing Corporate Fraud

Abstract

In 1953, Donald Cressey, a renowned criminologist, published a seminal work entitled, *Other People's Money: A Study in the Social Psychology of Embezzlement*. Cressey (1953) introduced three requisite elements necessary to create an environment conducive to embezzlement. He described these three elements as "1) a non-shareable problem, 2) an opportunity for trust violation and 3) a set of rationalizations that define the behavior as appropriate in a given situation" (Cressey, 1953, p. 30)." Although Cressey never referred to these three elements as a fraud triangle, fraud investigators and examiners refer to him as the father of the fraud triangle.

With minor changes, today's fraud triangle reflects Cressey's ideas: perceived pressure, perceived opportunity and rationalization. Albrecht (2014) notes that the iconic Fraud Triangle is ubiquitous in accounting, auditing and marketing literature. He states that everyone who studies fraud learns about the Fraud Triangle. The Association of Fraud Examiners (ACFE), the largest global organization that focuses solely on deceptive behavior, incorporates the Fraud Triangle throughout its training and educational materials. The AICPA gave additional credence to the Fraud Triangle by incorporating the model in *SAS 99*,

The audit failures of the late 1990s and early 2000s, as well as the Global Financial Crisis that began in 2006, resulted in increased use of the fraud triangle as an analytical tool. However, given the complexity of many corporate frauds during this time-period, some researchers have questioned the efficacy of the fraud triangle model, especially in deterring fraud. (Cooper, Dacin, & Palmer, 2013; Free & Murphy, 2013; Morales, Gendron, & Guénin-Paracini, 2014; Neu, Everett, & Rahaman, 2013; Sikka, 2010a).

Other researchers have suggested that our present-day fraud triangle is incomplete and needs additional factors. Wolfe and Hermanson (2004) suggest adding a fourth factor and creating a fraud diamond rather than a fraud triangle. Their fourth factor is capability, i.e., "…the person must have the capability to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but time and time again…the critical question is 'Who could turn an opportunity for fraud into reality?' (Wolfe and Hermanson, 2004 p. ?). Kranacher et al (2011) suggest expanding fraud perpetrators' motivations to include money, ideology, coercion and ego (M.I.C.E.). Including these additional motivations allows researchers and practitioners to look beyond non-shareable financial pressure(s).

Adding other factors to the fraud triangle may help researchers and practitioners understand why individual perpetrators commit fraud. However, each of these models uses the individual fraudster as the unit of analysis. Such an approach minimizes the influence of corporate environment and culture on all levels of the organization.

Ramamoorti et al (2013) propose a fraud theory that uses multilevel units of analysis: the individual, the group and the organization. Ramamoorti et al (2013) ascribe the term "bad apple" to individual nefarious acts; they refer to a group of fraud perpetrators as a "bad bushel," and use "bad crop" to describe a fraud that permeates an entire organization. For frauds that permeate an entire organization, Ramamoorti et al state that researchers and practitioners should examine corporate environment and culture.

The purpose of our paper is to use the A.B.C. Model of Behavioral Forensics within a criminogenics framework to examine various types of corporate chicanery. A criminogenics framework allows us to explore the impact of environment, e.g., regulation or changes in regulation, and culture, e.g., societal values, and tone at the top, on corporate behavior. For our analysis, we selected frauds from the for-profit and not-for-profit sectors.