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Causes and Solutions of Frauds

 Many businesses around the world are confronted with the phenomenon of fraud. From Africa to The United States as well as India, people are faced with corruption. It can be noted that the consequences of fraud and scams are always bad and painful. Indeed, many people lose their jobs and their money when frauds are discovered. This idea can be illustrated by the Enron Case or the Bernard Madoff Case where people lose their money and their job because of some dishonest persons who committed fraud. In the face of this situation, some authors tried explaining frauds’ causes and recommending some solutions to fight against corrupt practices. To that effect, the authors Albrecht et al. (2008) address the factors of frauds in The United States in their article. Similarly, the authors Sudhakar et al. (2005) talk about frauds’ causes in India. The authors Flint, Adjiboloso, Nott et al. (2005) tried presenting some solutions. In the following paragraphs, the writer will discuss the frauds’ causes in the United States and India. Then, the writer will analyze the suggested solutions.

Some authors demonstrate to the readers that greed for money is one of the causes of fraud. Hence, Albrecht et al. (2008) in their article “Current trends in fraud and its detection” explain how thirst for money leads to fraud. Thus, they explain that “the expanding economies of the 1990s and early 2000s” hid many difficulties and immoral actions (Albrecht et al., 2008, p.3). The results of this situation were an increase of investments. Therefore, companies thought that they were successful because of the increase of their profits. For instance, “[d]uring this time, most businesses appeared to be highly profitable …. The economy was booming, and investment was high. In this period of perceived success, people made nonsensical investment and other decisions” (Albrecht et al., 2008, p.3). In addition, they specify that greed of banks and investors cause the recent frauds because they wanted to increase the companies’ profits without taking into account the regulations. For instance they wrote that “[n]one of them [executives, investment banks, commercial banks, and investors] wanted to accept bad news. As a result, they sometimes ignored negative news and entered into unwise transactions” (Albrecht et al., 2008, p.5). In fact, those unwise transactions were done because of the desire to have more money.

The fact that employees can have the opportunity to commit corrupt practices is also another cause of frauds. Sudhakar et al. (2005) address this idea by taking into account “the technology dimension” which is explained by the opportunity and risk of occurrence of frauds when the system does not function correctly. They listed three types of risks involved in the technology dimension: “IT Environment Risks, and IT Operations Risk” (Sudhakar et al., 2005, p.73-74). The IT Environment Risks are explained by a malfunction of the computer’s system, a non-clear definition of the objectives, and a bad organization within the company. For illustration, the authors claim: “Banks must operate within a set regulatory framework. The greater the extent of computerization at a bank, the greater the possibility that changes in banking regulations will affect computer systems. Poor segregation of duties can increase the risk of error and fraud within a computer and telecommunication environment” (Sudhakar et al., 2005, p.73). The IT Operations Risk is demonstrated by the errors which can occur in the transmission of datum due to the complexity of the computers’ programs and to numerous sources sent. Also those risks can appear because of the opportunity given by the computer’s systems. Thus, it can be read in the article: “A computerized environment provides a number of new opportunities for the fraudulence.” (Sudhakar et al., 2005, p.74). The authors explained this idea by saying that with computers’ use crooked people are easily able to cover up their dishonest activities and corrupt practices. Albrecht et al. (2008) also talk about “the perceived opportunity” that they explain by the fact that employees do not encounter any obstacle which can stop them from committing fraud. They give the example of “a weak board of directors or inadequate internal controls” as illustrations of the perceived opportunities (Albrecht et al., 2008, p.3).

Likewise, pressure contributes to the happening of fraud. Flint (2005) explains that employees in public accounting firms work too much, do many overtime hours, and this situation can lead to bad consequences. Thus she states in her article “Solutions to Corruption in the Auditing Profession,” “the impact of the incremental workload may act as a catalyst for serious negative consequences such as adversely affecting employee attitudes, performance and turnover (Cordes and Dougherty, 1993, p.621).” (Flint, 2005, p117-118).Thus, too much work can affect employees’ attitudes by inciting them to commit frauds. In addition, employees can deal with the pressure of meeting the market’s expectations. To that purpose, they could do anything such as accomplish fraudulent deeds to fulfill the objectives of the company as well as those of the market. For example Nott et al. (2005) in their article “Enhancing The Quality of The Human Factor To Minimize Corporate Accounting Scandals” write: “Stock market analysts forecast quarterly and annual earnings and the stock price can react with volatility to meeting or not meeting ‘Wall Street’s’ expectations. Needless to say, there is much pressure on corporate management not to disappoint the stock market when earning figures are reported quarterly” (Nott et al., 2005, p. 60). Albrecht et al. (2008) analyze the pressure by saying that employees are faced with situations which push them to commit fraud. These situations usually have a link with the results of a company. In fact, they commit fraud because they want to improve companies’ profits. To illustrate this idea, the authors said, “Most pressures involve a financial need, although nonfinancial pressures such as the need to report results better than actual performance, frustration with work, or even a challenge to beat the system, can also motivate fraud.” (Albrecht et al., 2008, p.3).

Similarly, the rationalization of fraud and the moral decay are other factors of corruption, which are explained by the fact that employees think that their bad actions can be excused or they think that it is normal to commit frauds in order to produce good results for the company. Thus Albrecht et al. (2008) state: “For corporate executives, rationalizations to commit fraud might include thoughts such as ‘we need to keep the stock price high,’ ‘all companies use aggressive accounting practices,’ or ‘it is for the good of the company’” (Albrecht et al., 2008, p.3). Albrecht et al. (2008) demonstrate that the expansion of the “moral decay in the United States and around the world” led to fraud (Albrecht et al., 2008, p.4). Many public people were no longer a good example of honesty in the society. Sudhakar et al. (2005) approach the concept of moral decay by talking about “the human dimension.” They mean by this idea that the top management which is supposed to fight against corruption is itself the investigator of fraud. Hence, they wrote that “If the top management itself is corrupt, then it will not encourage whistle blowers.” (Sudhakar et al., 2005, p.72). In a similar way, Nott et al. (2005) state, “The individuals making the decisions to misstate financial information are often highly competent knowing what the rules are and how to bend them.” (Nott et al., 2005, p. 61). This idea can be explained by the fact that employees do not have any ethical and moral sense. For this reason they easily make the decision to produce false results.

Finally, regulations lead to corruption. Albrecht et al. (2008) show that the U.S accounting rules contribute to fraud because of the nature of the rules. They wrote in their article: “In contrast to accounting practices in other countries such as the United Kingdom and Australia, U.S. generally accepted accounting principles (GAAP) are much more rule-based than principles-based. If a client chose a particular questionable method of accounting that was not specifically prohibited by GAAP, it was hard for auditors or others to argue that the client couldn’t use that accounting method” (Albrecht et al., 2008, p.4). Sudhakar et al. (2005) talk about “the legal dimension” which is the fact that the regulations do not unfortunately eliminate fraud (Sudhakar et al., 2005, p.72). For this reason the authors call for the reinforcement of those laws.

From the preceding paragraphs, it can be noted that regulations and human beings have a great responsibility in the increase of fraud. Certainly, the use of computers and the lack of stronger rules facilitate the occurrence of fraud. However, it must be recognized that human beings are the makers of those laws and machines. The problem will be solved by the change of mentality and the return to moral standards. In the following paragraphs, I will analyze the suggested solutions by other authors.

In their article “Addressing oil related corruption in Africa. Is the push for transparency enough?” Jerome et al. (2005) claim, “There are two things one must know about institutions: humans create them and humans lead and manage them. As a result, their degree of success or failure is a reflection of the quality of the HF [human factor] of people who run them (Adjibolosoo, 2005). Since institutions have no life of their own, they take the life of those who operate them.” (Jerome et al., 2005, p. 24). From this quote, it can be noticed that human beings are at the basis of fraud, but also the solution to fight against this problem. That is why many authors believe in a “human factor (HF) solution” to overcome corruption. Therefore, one can ask what is the human factor? Why can it be the best solution against fraud? How can it be developed in human beings?

Flint (2005) states, “The human factor concept or theory is about the impact of personality characteristics or traits on people’s performance effectiveness and efficiency. It is the primary factor that gives shape and form to all other factors that impact the work environment in the long- term.” (Flint, 2005, p. 122). Thus, Flint, Jerome, Nott et al. (2005) come up with six components of human factor to understand this definition whose first component is “the spiritual capital”. The spiritual capital allows the worker to value his work, and to understand that he works for the community. Therefore, he is not selfish, and he works in order to improve the company’s objective. To illustrate this perception Flint wrote, “The individual knows that there is a greater purpose for work than personal success, money and power. The individual recognizes that work is valuable and honorable in that it contributes to the well-being of the community as a whole.” (Flint, 2005, p. 123). “The moral capital” represents the moral standards and values inherent to the individuals. If the employee cultivates these values, he is able to make a difference between what is right or wrong. Thus, Nott et al. (2005) state, “[Moral Capital] refers to the qualities individuals possess that lead them to conform or not to conform to universal principles of life. Its constituents include integrity, humility, justice, charity, patience, honesty, sensitivity, and fairness” (Nott et al., 2005, p. 63). An employee who possesses those qualities will hardly commit fraud. “The Aesthetic Capital” is the development of art and creativity. Even if in a company artistic behaviors is not always well welcomed, some authors think that it is an important constituent of the human factor. For example, Flint (2005) claims, “Accounting and auditing may not be considered to be ‘art’. However, it can be argued that the manner in which that accounting principles balance such things as relevance, reliability, consistency, comparability, materiality and cost-effectiveness is artful” (Flint, 2005, p. 123). This idea shows that art should be really considered in any kind of profession because it already exists in a certain way in those carriers, but in a subtle form. Furthermore, she continues by saying, “Creativity is seen in the [Public Accountant]’s use of professional judgment to decide the most suitable accounting method to use from amongst a variety of alternatives, the ability of the accountant to save a company taxes by the arrangement of its affairs or by the PA’s advice on how to streamline the accounting system and put in place effective controls to prevent and detect error and fraud.” (Flint, 2005, p. 123). It can be seen again that art plays a great role in preventing and detecting scams. “The human capital” is all the knowledge and expertise that an employee should have to perform well his job. Nott et al. (2005) affirm that the human capital is “The know-how and acquired skills (i.e., technical, conceptual, intellectual, analytic and communications); human experiences, knowledge, intelligence, physical, well-being, and emotional health” (Nott et al., 2005, p. 63). Through this definition, it can be seen that the human capital takes into account the physical, psychological, wellness aspects of the employees’ life, and their relationships with others. In fact if an employee possesses these criteria, he could perform well his job without cheating. “The human abilities” is all the capacities that an employee could possess. Finally, “the human potential” is some talents that an individual could have without being aware of them. Flint (2005) tells the readers: “Human potential consists of talents that one has not yet discovered, gifts that one has the potential to use, but has not yet tapped into” (Flint., 2005, p. 125).

After introducing what the human factor (HF) is, it should be noted that in order for HF to be effective in the fight against corrupt practices one must develop HF in each individual. To that purpose, many authors call for the help and the reinforcement of education. The authors recommend that educational programs should not only focus their curriculum on knowledge and skills acquisition. Those who made these programs should take into account the human factor’s aspects and components. Therefore, when students graduate, they will be more honest, and have more moral principles which will help them not to commit fraud. Nott et al. (2005) tell the readers, “The courses they take in their schools equip them with more tools but not more character qualities. It is imperative to insure that ethics courses create appropriate forum in which students interact with the course content…This must be done in such a way that integrity becomes imprinted in their being rather than just placing a tool in their business tools kit to choose to either use or neglect” (Nott et al., 2005 p64-65). Flint (2005) gives the example of a Canadian School of Business’s program: “The program [CASB] is competency-based and through a combination of graduate-style education, practical experience and exposure to standards and ethics of the highest caliber, CASB students become’business-ready’ CAs” (Flint, 2005, p. 125). The authors also advise that everybody whether professors, administrators, students, or parents must be concerned and involved in integrating more ethical themes in education. Hence, through education the human factor [HF] will be more developed, and fraud will be reduced.

In summary, it can be said that although fraud has multiple causes and is increasing, it can be seen that there exist some solutions. If these solutions are correctly applied, fraud will be reduced in a great proportion.

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