The Individual’s Motivation for Fraud

Kelly E. Tippett

Staff Accountant

McLain, Calhoun, McCullough, Clark & Company
Abstract

Most researchers agree that fraud is increasing in both size and frequency though exact numbers are almost impossible to estimate because many frauds go undetected or unreported (Albrecht, Albrecht, Albrecht, Zimbelman, 2014, p.4). The most common definition of fraud is “to get an advantage over another by false representations” which include “surprise, trickery, cunning and unfair ways by which another is cheated” (Albrecht, Albrecht, Albrecht, Zimbelman, 2014, p.7). A foundational precept of accounting theory on fraud is that there are three main elements common among all fraud. These three elements, which are a perceived pressure, a perceived opportunity, and a rationalization of the fraud act, make up what is referred to as the “fraud triangle” (Ramos, 2003).

Introduction

The topic of why employees commit fraud has been studied by experts in many fields now for nearly a century. In one very interesting study of the 1940’s, a criminologist named Donald R. Cressey interviewed approximately 200 convicts incarcerated for embezzlement. What he found was that each convict had both the perceived opportunity to commit the embezzlement and had
rationalized the crime as something other than criminal activity (Wells, 2001). Studies such as Cressey’s, laid the foundation for modern-day forensic accounting fraud theory.

I have found that most accounting articles on the subject of employee fraud focus on ways businesses can decrease the risk of fraud through the use of controls which decrease opportunity for fraud. Accountants have identified six factors that increase the opportunity for fraud. These factors are: 1) lack of controls 2) inability to judge performance quality 3) failure to discipline fraud perpetrators 4) management’s lack of access to information 5) ignorance, apathy, and incapacity of management 6) lack of audit trail (Albrecht, Albrecht, Albrecht, Zimbelman, 2014, p.39). However, the aspect of fraud which is the hardest for management to assess and controls lies with the individual.

There are many factors that can contribute to an individual’s “perceived pressure” which serves as the motivation for the individual to commit fraud. My focus in this paper will be on better understanding this element of the fraud triangle. Through my research and experience in auditing, I have identified three main areas of “pressures” that motivate individuals who commit fraud. These areas are need, greed, and addictions or vices.

**Motivation from Need**

The pressure that arises from a financial need is both the most common motivator and the easiest for most people to sympathize with and understand. While analyzing this topic in Corporate Compliance Insights, John Hanson wrote, “motivation generally relates to an ‘unshareable need’ that arises within a person’s life (Hanson, 2012).” Hanson further explains that as the particular “unshareable need” increases in the person’s life, their risk of committing fraud increases as well.
Most financial needs are quite easy to relate to. Common financial needs arise from financial hardships such as unemployment, divorce, medical expenses, and business or investment losses. In his study of what motivates individuals to commit fraud, Ben Hunter observed that rational analysis of cost versus benefit to the perpetrator of fraud “fails to identify the complex interplay of wants, needs, and perceptions that potentially go into a single decision (Hunter, 2010).”

Interestingly, all of the research I assessed on the subject of grouping or “profiling” fraud offenders was in consensus that almost all perpetrators of employee fraud have no criminal record and do not come from a certain racial or economic demographic. Hunter further asserts, “One of the more intriguing ideas in relation to fraud is that, rather than fraud serving the end of acquiring resources, those who commit fraud do so to avoid losing what they already have and have usually acquired quite legitimately (Hunter, 2010).” In fact for many individuals, the potential “intangible” losses of their valued reputation or status and the perceived embarrassment from failure can be more convincing motivators to commit fraud than the actual “tangible” financial pressures.

**Motivation from Greed**

The motivation to commit fraud from greed is a bit more complex in my opinion. Certainly there is overlap from the “need motivation” to the “greed motivation.” I have read and analyzed many fraud cases where an employee originally commits fraud motivated by a common perceived financial need. The employee commits the fraud without being caught, satisfies the original financial need, and then continues to commit the fraud (sometimes for years) out of greed. This seems to be a common fraud scenario.
In analyzing the topic of motivation from greed, I feel it is necessary to look at the broader issue of societal pressures within our environment. Many individuals are driven by the desire and ambition to succeed financially. Societal perceptions of success are focused around status and power derived from wealth and fortune. This point is exemplified by the common expressions “keeping up with the Jones’” or “I have arrived.”

In his study on identifying the motivation behind fraud, Ben Hunter (2010) states:

In considering the fear of failing as a motivation to commit fraud, we acknowledge implicitly the role of wider cultural goals and definitions of success and their impact upon behavior. In most commercialized societies, we can identify the trappings of having “made it” as the ability to own one’s home, having a car (or preferably two), being able to move in particular circles and present a particular image. Such cultural norms could, we might argue, exert a powerful pull on individuals. (p.2)

**Addictions & Vices**

In my experience, motivations which result from addictions and vices are very closely linked to greed motivators. I assert that just like “NEED” feeds the motivation for “GREED,” greed also feeds the motivation for “VICES.” These motivators become a vicious cycle for the individual, often one leading to the next as their criminal behavior escalates. I have designed the following illustration to visually demonstrate my point.
Some common vices and addictions are drugs, alcohol, gambling, and expensive extramarital relationships. When an individual is struggling from an addiction (or addictive behavior) they often lose their ability to reason making their perceived rationalization of the crime more real and legitimate to them.

**Summary**

Employee fraud represents a longstanding and growing problem facing businesses in our society. The focus for many accounting professionals examining the topic of fraud is fraud prevention. However, it is important to examine the “perceived pressures” element of the “fraud triangle” as well, as it represents the hardest area for management to control and assess in fraud prevention. I have identified and analyzed three main areas of “pressures” that motivate individuals who commit fraud—need, greed, and addictions or vices. From my research and experience, I have determined that these three areas of fraud motivation are linked and often progressive, each area leading to the next area, creating a vicious cycle of fraud motivation.
References


