

## Paradigm Shifts in Causes of Fraudulent Actions: Triangle, Diamond and The Others

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### Extensive Summary

#### Introduction

Identifying the factors cause fraudulent actions is an intensely debated issue and it has an extensive intellectual pedigree. It is fair to say that fraud triangle theory is the primary paradigm on causes of fraudulent actions in the accounting literature. Due to the changing business world and lifestyle, in the following years, from 1950 to the present, many different views emerged. Although some of these have caused paradigm shifts, we cannot talk about conversion. In this study fraud triangle theory and following models are comparatively examined and it is concluded that the focus on the causes of fraudulent actions has shifted from employees to executives and researchers are more concentrated on behavioural characteristics. In addition, fraud diamond model is considered to be the approach that created the paradigm shift for the causes of fraudulent actions.

From past to present, the costs of fraudulent actions and the negative effects of them on society gradually increase. 1998 Waste Management Scandal, 2001 Enron Scandal, 2002 WorldCom and Tyco Scandals, 2003 Healthsouth and Freddie Mac Scandals, 2005 American Insurance Group Scandal, 2008 Lehman Brothers and Bernie Madoff Scandals, 2009 Saytam Scandal (Corporate Accounting Scandals, 2018) are some of the large-scale fraudulent actions we have recently encountered. Also, fraudulent transactions are taken place in several organizations such as FIFA, Olympus, GlaxoSmithKline, Siemens, and HealthSouth. Increases in the fraudulent actions have gradually increased the importance of the concepts of control and internal control throughout this process.

It is beneficial to prevent frauds causing problems that cannot be easily eliminated by both businesses and society before they occur. Because the cost incurred in case of fraudulent action will be much higher than the cost incurred in order to avoid the

fraudulent action. Because of the large costs incurred as a result of fraudulent actions, researchers and practitioners focus on preventing the emergence of fraud (Wilhelm, 2004; Krummeck, 2000; Coderre, 2009; Adams, 2010; Capelli ve diğerleri, 2012).

In order to prevent fraud; it is necessary to identify the fraud generating factors and prevent the presence of factors that may cause fraudulent actions. In this respect, along with ethical behavior, the elimination of the fraudulent factors or the reduction of their effects will maximize the benefit of the efforts made in the name of preventing the frailty. In order to avoid high cost frauds, it has been tried to determine the reasons that lead individuals to fraudulent activities. A number of paradigms have been developed for this purpose.

### **1. Pioneer Paradigm: Theory of Fraud Triangle**

The paradigm that both mentioned in literature mostly and is included in the independent audit standards is the fraud triangle theory developed by American sociologist Donald Cressey in 1950. The basis of fraud triangle is the acceptance that there is a basic reason in people's all behaviors. Fraud triangle has three factors; incentive/pressure, opportunity, rationalization.

Incentive/pressure are the motivating factors for the fraudulent activities. These include financial problems of the person, drink-gambling-substance addiction, desire to take revenge from the boss, premium to be paid, wage increase, and greed. Opportunity is the emergence of the appropriate situation for fraud. Employees create an environment where they can perform fraudulent actions by exploring the weaker parts of the organizational system. Rationalization is the action of convincing herself/himself that what actually cheater does is not so wrong. By behaving like that the cheater comforts herself/himself before the fraudulent action starts. In other words, the person is trying to justify his fraudulent action by finding various excuses (Kranacher ve diğerleri, 2010).

### **2. Paradigm Exchanges: Chronological Order**

Numerous models have been developed that generate paradigm shifts following the theory of fraud triangle, which theoretically framed the reasons leading to fraudulent behaviors. These are mentioned below:

- 1984 - Albrecht, Howe, Romney – “Fraud Scale”
- 1990 - Doost – “Fraud Cube”
- 2004 - Wolfe, Hermanson – “Fraud Diamond”
- 2007 - Bressler, Bressler – “Fraud Square”
- 2007 - Free, Macintosh, Stein – “Organizational Fraud Triangle”
- 2008 - Ramamoorti – “ABC Model”
- 2009 - Marks – “Fraud Pentagon”
- 2010 - Cieslewicz – “Fraud Square”
- 2012 - Dorminey, Fleming, Kranacher, Riley – “M-I-C-E”
- 2013 - Mackevicius, Giriunas – “Fraud Scale”

### 3. Assessment

Numerous views on the causes of fraudulent acts from the 1950s, when the fraud triangle theory entered the literature, have been put forward. As of today, it can be expressed that the fraud triangle is a generally accepted paradigm in the framework of the prevention of fraudulent actions and that this paradigm has been changed by the fraud diamond model. However, in the Independent Auditing Standards, the place of fraud triangle instead of fraud diamond shows that paradigm transformation has not yet occurred. In other words, fraud diamond model has not yet fully taken the place of the fraud triangle theory. At the beginning of the reason for not undergoing the transformation of the paradigm shift is the incompatibility of existing audit techniques and corporate governance methodologies. Because, in fraudulent actions, shifting the focus point from the employees to the managers or to the owners will require the re-examination, development and adaptation of the internal control and audit practices that focus on the employees. Undoubtedly, the existing infrastructure is not ready for such a transformation.