Informing the Fraud Triangle: Insights from Differential Association Theory

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**Abstract:** The fraud triangle (FT) has been criticized by scholars and practitioners for not being thorough enough to include every occurrence of fraud. However, not every case of fraud can follow the FT and the problem might have been one of interpretation. The purpose of this paper is to lend support to the fraud triangle (FT) by expanding on the understanding of differential
association theory (DAT). Sutherland’s work on DAT is a major source to inform our understanding of the FT. The return to his work is intended as a clarification of what Sutherland actually says with respect to the FT and a critical assessment of how far his work can be regarded as being authoritative. To accomplish this task, the paper provides anecdotal evidence from three high-profile accounting fraud cases – Livent, WorldCom, and Enron. The findings reveal that the concepts and propositions of DAT do have the potential to expand our understanding of the FT concepts. DAT seeks to explain the content and process of corporate accounting fraud via sub-culture and specific techniques in which criminal behaviour is learned. Practically, the paper contributes to a wider body of literature that expounds on the value to further develop fraud theories to inform fraud detection and prevention.

**Introduction**

During the last two decades, the world was shocked by a series of high profile accounting frauds that sent the accounting profession into turmoil (Clikeman, 2009; Lokanan, 2015). These frauds not only ripped through the very fabric of corporate America, but also tarnished the image of the accounting profession (Agrawal and Cooper, 2017; O’Connell, 2004, Soltani, 2014). To make sense of it all, some academic commentators have tried to explain the etiology of the frauds through normative theoretical constructs that posit the practice as common place within the industry (see Gray, Frieder, Clark, 2005: 5; Ball, 2009: 278; Lee, 2011: 757-759). Others argued that the frauds were an aberration from the norm and that they represented acts of dishonesty, rather than systematic failure (Demski 2002; Power 2013; Davis and Peasch, 2013; Lokanan, 2015; Sikka, 2015). Concerned about the erosion of ethical standards within the accounting profession, both the American Institute of Certified Public Accountants (AICPA) and the Association for Certified Fraud Examiners (ACFE) turned to Cressey’s (1953) work on the fraud triangle (“FT”) for potential explanations of the frauds (O’Connell, 2004; Donegan and Ganon, 2008; Huber, 2017; Lokanan, 2015).

Cressey (1953) first introduced the FT’s decomposition in his book *Other People’s Money*. Cressey’s FT consists of three elements: perceived pressure, perceived opportunity, and rationalization, all of which must be present in order for a crime to be committed (Cressey, 1953: 30). Support for the FT comes from audit professionals and standard setters, who argue that investigators who analyze financial statements will be able to quantify the incentive (as in inflated revenue or overstated net income) that led to the fraud; assess the opportunity to commit the fraud with reference to weak or the absence of adequate internal controls; and, the
rationalization techniques used to justify the fraud (see Auditing Standards Board, 2002; AICPA, 2002 emphasis added). However, many have argued that these explanations are limited in scope and might misconstrue the nature of the fraudulent misconduct (Choo and Tan, 2007; Donegan and Ganon, 2008; Dorminey, Fleming, Kranacher, and Riley, 2010; Lokanan, 2015; Morales, Gendron, Guénin-Paracini, 2014; Murphy and Dacin, 2011; Seitz, Oeding, and Wiese 2015).

The FT, like any other criminology theory, is not a general theory of crime (Lokanan, 2017). The ACFE has made it abundantly clear they have “never claimed that every case of fraud follows the triangle” (Gill, 2017, para. 22). The misinterpretation by the audit and fraud professions to use the FT as part of their engagement mandates has led to a number of criticisms (Cooper, Dacin, & Palmer, 2013; Gill, 2017; Huber, 2017; Lokanan, 2015; Morales et al., 2014; Seitz et al., 2015). Central among these criticisms is that the FT lacks the explanatory power that is essential in explaining all occurrences of fraud (Donegan and Ganon, 2008; Morales et al., 2013). Perceived pressure (or non-shareable financial need) is an incomplete descriptor of the fraudster’s motivation(s) (Dorminey et al., 2010: 18-19). A fraudster for example, who is working in a culture in which fraud is considered acceptable, might see this as an easy opportunity to commit fraud (Ashforth and Anand, 2003; Murphy and Dacin, 2011). The FT also fails to consider the social learning factors that contribute to criminal behaviors and more importantly, it does not provide insight into group-level involvement in the criminal act (Free and Murphy, 2013). Contextually, the FT only looks at the individual perpetrator acting alone, and cannot assess the likelihood of fraud under collusion (group) (Dorminey et al., 2010; Free and Murphy, 2013; Morales et al., 2013).

There is also the assumption that all of the elements of the FT carry equal weight. Rarely, if ever, “is the strength or influence of the relationship between the elements tested or examined” (Dellaportas, 2013: 32). This last assertion underscores the fundamental problem with the FT. While opportunities can be empirically assessed, rationalization and pressure are not observable (Dorminey et al, 2010: 18-19; Murphy, 2012: 242-243; Murphy and Dacin, 2011: 610). Furthermore, the FT was created with the accidental fraudsters in mind, not the predatory or
sociopathic fraudster\(^1\) who feels entitled (Dorminey et al., 2010: 20). All a sociopath or predator seeks is opportunity; he or she does not need pressure or rationalization to commit the fraud (pp. 20-21). Perhaps the issue is not with the FT itself, but how it was synthesized, interpreted and applied.

In recent U.S. court cases\(^2\), the interpretation of the FT was put to the test. In Haupt v. Heaps, the developer claimed that the CEO of the company that hired him fraudulently bought his stock back at an artificially lower price because the company was represented as being in danger of collapsing. The developer lost at trial and appealed the case. In the appeal, the developer reasoned that the trial court erred by excluding his expert testimony on the FT that the conduct of the defendant was consistent with the three elements of the FT. The appeals court agreed with the trial court that: “Research into the case law by counsel for the parties and the [c]ourt has failed to locate even a single case in which the fraud triangles theory has been adopted as a reliable scientific method in any court of law” (Haupt v. Heaps, 2005, para. 31). The evidence provided by the expert on the FT was rejected because the court felt that it was more prejudicial than probative (Gill, 2017).

In Travis v. State Farm Fire & Cas, Jennifer Davis-Travis and Jon-Michael Travis (collectively the Travises) sued State Farm because it denied their claim for losses sustained in a fire. In its defense, State Farm claimed that the Travises commit fraud by concealing and misrepresented important facts in their claim. State Farm through the testimony of an expert characterize the Travises as individuals with significant incentive and pressure to commit fraud, and that they possess attitudes and characteristics that allow them to rationalize the fraud (Gill, 2017). The trial judge in a brilliant analysis excluded the expert testimony on the grounds that the FT as a scientific theory is still untested and does not have a known rate of error or objective control associated with its application. The judge further notes that the application of the FT is mostly base on professional judgment rather than hard science.

\(^1\) See Snakes in Suits: When Psychopaths Go to Work for an excellent account on the presence of people with psychopathic traits in the workplace. The authors claim that about three to four percent of people in senior position have psychopathic traits.

In a more recent case, *Kremsky v. Kremsky*, the issue of allowing expert testimony to employ the FT to speculate on an individual’s mental state was put to the test. In Kremsky, an uncle sued his nephew for breach of fiduciary duty and fraud against the said uncle. The uncle sought the testimony of a financial expert who testified that the nephew exhibit traits that satisfy the elements of the FT and had the motive to commit fraud (Gill, 2017). The court rightfully dismissed the testimony citing that the expert testimony is base on subjective belief, which amount to speculation about the frail morality of the nephew. The judge further noted that no case was cited where an expert touting the FT has been permitted to speculate on an individual’s motive to commit fraud.

In these cases, testimonies that relied on the FT was deemed “unreliable” (Gill, 2017, para. 26). The issue lies with expert witnesses referring to the FT as a “theory” rather than a framework to guide their practice. As such, the testimonies were seen as more prejudicial than probative (para. 36). By referring to the FT as a scientific theory, the analysis presented in these court cases were flawed because it shows that the knowledge obtained from Cressey’s (1953) work was misinterpreted with respect to the very basic of the FT. It is these contentions that jeopardise the AICPA’s efforts (as set out in standard, SAS No. 99) to focus the identification of fraud-risk factors on the components of the FT that work against the successful detection of fraud (see AICPA, 2002, Para. 7).

The purpose of this essay is to lend support to the FT by expanding on the understanding of differential association theory (DAT). Sutherland’s works (1937, 1939, and 1947) on DAT are major sources to inform our understanding of the FT. The return to his work is intended as a clarification of what Sutherland actually meant with respect to the FT and a critical assessment on how far his work can be regarded as being authoritative. Cressey, who as mentioned earlier is attributed with setting the foundation of the FT, was a protégé of Sutherland (the architect of DAT) (Albrecht, 2014; Gill, 2017). As such, DAT and the FT do not sit at opposite ends of a continuum. It may be that when the FT was synthesized, it failed to capture the key postulates of DAT, which was instrumental in forming the three legs of the FT. Whilst not explicit, the FT is embedded in DAT and is therefore not an entirely distinct concept, particularly the link between neutralization and corporate culture e.g. “my boss told me to do it” (Albrecht, 2014).
The analysis that follows has both theoretical and practical relevance and contributes to the accounting fraud literature in two ways. Theoretically, the paper extends our knowledge of the FT, by placing the phenomenon of corporate accounting fraud within the context of DAT. The principles of DAT are seen as a segway to further inform our understanding of the three legs of the FT. In doing so, the paper answer calls for research on the FT (Donegan and Ganon, 2008; Dorminey et al., 2010; Lokanan, 2015), and consequently, contribute to our understanding of corporate accounting fraud and generate new knowledge about the FT (Choo and Tan, 2007; Morales et al., 2014; Murphy and Dacin, 2011; Murphy, 2012).

Practically, the paper builds on the convergence of the causal factors – perceived pressure, perceived opportunity, and rationalization and provides useful insights on the types of behaviours that aid fraudulent behaviour (Albrecht, 2014; Gill, 2017; Lokanan, 2015). These insights parallel the three legs of the FT and provide practitioners and standard setters with the tools for the detection and prevention of fraud. In particular, the insights from DAT can aid forensic accountants to develop their skill-sets and analytical abilities to uncover financial deceptions (Digabriele, 2008: 332). The need for analytical traits is also supported by the extant literature. Davis, Farrell, and Ogilby (2010) noted that forensic accountants need to use their analytical capabilities to seek out all relevant information from a case in order to solve it. Similarly, Lokanan (2017) called for value-added theoretical constructs to be added to forensic accounting training. More theoretical insights into fraudulent behaviour contribute to the mission of equipping forensic accountants with the right skills to successfully fight fraud (Davis et al., 2010). The field of forensic accounting must not be seen only through the lens of fraud detection (Digabriele, 2008); but, through a broader lens that recognizes a wider skillset as necessary to address the types of fraud that forensic accountants are expected to solve (Lokanan, 2017). DAT has the ability to assist forensic accountants to move away from a narrow contextual stance to a more holistic understanding of fraud and fraud risks.

For the purpose of this discussion, corporate accounting fraud is defined as the willful manipulation of financial statements and the presentation of the materially false and misleading statements to regulatory authorities by corporate executives and professional accountants (see
Corporate accounting fraud includes intentional financial misrepresentations (e.g., overstating revenue and understating expenses) and misappropriations of assets (e.g., theft of inventory) (AICPA, 2002). It does not automatically follow that corporate accounting frauds are committed by members of the accounting profession. There is little doubt that professional accountants\(^3\) may have contributed in varying degree in some of these frauds (or not desisted from participating), but the frauds were usually orchestrated by someone other than the accountant - typically the CEO and equivalent individuals.\(^4\)

The remainder of this paper is structured according to the following format. I begin with a brief description of three high profile corporate accounting fraud cases – Livent, Enron, and WorldCom to articulate the concepts of DAT and the FT. Next, I briefly outline the principles of DAT, by focusing on the main ideas and postulates attributed to the theory. I then present a literature review of occupational fraud, to better articulate the relationship between the FT and DAT. The literature review is then followed by an analysis of the conceptual critiques of DAT. Next, I present and discuss some anecdotal evidence from Livent, Enron, and WorldCom to explore DAT and inform our understanding of the FT. In order to explain how learning fraudulent behaviour takes place in the course of the individual’s occupation, particular emphasis is given to the power of managerial influence and learning techniques encountered in the workplace. I then summarize the conclusion that highlights areas for future research.

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\(^3\) Professional accountants are individuals who have been certified by a professional accounting body such as the United States’ (U.S.) Certified Public Accountants (“CPA”) and Canada’s Chartered Professional Accountant (“CPA”), and are held accountable by these bodies for their conduct.

\(^4\) While distinguishing between corporate accounting frauds and audit failure is a complex explanatory phenomenon, the two of them should not be confused. Audit failure is when an auditor fails in his or her audit responsibility to detect an irregularity that should have been detected, for which the auditor and or company have paid the ultimate price.
In his seminal work, Sutherland’s (1937) *White Collar Crime* advanced a general theory of differential association to explain the offending patterns of corporations and other white-collar offenders. Differential association is a learning theory of crime and can be used to explain the motivational factors that lead white-collar workers to a life of crime and deviance. The theory has two main postulates: the process by which criminal behavior is learned, and the content that the individual learned from the process (Sutherland, 1947). Developed in the 1930s, differential association is a theory that purports to show criminal behavior as a learned construct. Sutherland (1937) argues that criminal behavior is learned via interaction and association with deviant groups. An individual becomes delinquent because s/he associates with other delinquents and learns how to commit crimes. “If a person associates with more groups that define criminal behavior [as] more acceptable than groups that define criminal behavior as unacceptable, the person will probably engage in criminal behavior” (Popple and Leighninger, 1996: 331). Central to Sutherland’s claim is that criminal behavior is learned “because of an excess of definitions favorable to violation of law over definitions unfavorable to violation of law” (Sutherland and Cressey, 1980: 75). When viewed in this manner, “deviance, like conforming behavior, is seen as a product of [the] socialization” process (Calhoun, Light, and Keller, 1989: 176).

In his book *The Professional Thief* (1937), Sutherland defined the process where white-collar crime is learned through differential association among group members. According to Sutherland,

> a person can become a professional thief only if he is trained by those who are already professionals. It is ridiculous to imagine an amateur deciding to become a pickpocket, con man, penny-weighter (jewelry thief), or shake man (extortioner) without professional guidance. He knows nothing of the racket, its techniques or operations, and he can[not] learn these things out of books” (1937: 21).

Sutherland reinforced this process in his 1939 preliminary version of differential association, and argued that criminal behavior is learned through social interaction and association with peer groups (Sutherland, 1939). The final version of DAT was presented by Sutherland in the form of nine postulates found in the 4th edition of his textbook *Principles of Criminology* (Sutherland,
1947: 75-77). The nine principles as presented by Sutherland are briefly tabulated in Table 1-1 (see Sutherland 1947: 75-76).

**Table 1-1: Sutherland nine Principles of DAT**

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<table>
<thead>
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<tbody>
<tr>
<td>1</td>
<td>Criminal behavior is learned</td>
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<td>2</td>
<td>Criminal behavior is learned in interaction with other individuals</td>
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<td>3</td>
<td>Learning of criminal behavior occurs within intimate personal groups</td>
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<td>4</td>
<td>Learning includes (a) techniques of committing the crime; and (b) the specific direction of motives, drives, rationalizations, and attitudes</td>
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<td>5</td>
<td>The specific direction of motives and drives is learned from definitions of the legal codes as favorable or unfavorable</td>
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<td>6</td>
<td>A person becomes delinquent because of an excess of definitions favorable to violation of law over definitions unfavorable to violation of law</td>
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<tr>
<td>7</td>
<td>Differential associations may vary in frequency, duration, priority, and intensity</td>
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<tr>
<td>8</td>
<td>Learning criminal behavior involves all of the mechanisms that are involved in any other learning</td>
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<tr>
<td>9</td>
<td>Criminal behavior is an expression of general needs and values, but it is not explained by those needs and values</td>
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**Research on Occupational Fraud**

To date, there is a dearth of research in the white-collar crime literature on occupational fraud and abuse. Much of the current literature on occupational fraud is based on Sutherland’s work on DAT. As can be seen in Table 1-1, Sutherland believes that criminal behavior is learned in a process of interaction with one’s peers, and as such, criminality cannot exist without their assistance. Learning criminal behavior involves three specific traits: (1) the techniques to commit the crime; (2) the motives, drives, rationalizations, and attitudes of the criminal and the nature of the criminal act to be committed; and (3) an excess of definitions favorable to violations of the law over definitions unfavorable to violations of the law. One can therefore see how DAT fits into occupational fraud. Organizations, in which individuals view crime as acceptable, will eventually infect their peers, many of whom will eventually gravitate towards criminogenic behavior.

Perhaps the first study to extend Sutherland’s work is Cressey’s (1953) study on embezzlers. Cressey’s hypothesis notes that trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property (Cressey, 1953: 30).

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5 For a more detailed explanation of these postulates, see (Sutherland, 1947: 75-58).
Central to Cressey’s (1953) hypothesis, is the non-shareable problem that has a financial need associated with it. What constitutes a non-shareable financial need is wholly in the eyes of the occupational offender (p. 35). An individual may lose money in a betting shop and s/he might not see the loss as a non-shareable financial problem. Another individual who experiences the same amount of loss might define the problem as one which must be kept secret, i.e., non-shareable. Likewise a corporation may be experiencing financial stress, which must be shared with its shareholders and creditors, while another corporation experiencing similar financial stress may construe these problems as non-shareable (p. 35). The non-sharable problem is driven by a financial need that can be solved by theft of cash or other assets.

The presence of a non-sharable problem alone will not lead to fraud. The non-sharable financial need creates the motive for the crime to occur, but the employee needs to weigh out the opportunity for committing the crime without being detected by authorities. Cressey (1953) noted that there are two general opportunities to commit a crime: general information and technical skills. General information is where the employee has access to information that allows him or her to commit fraud. For example, a banking official might be privy to access codes and passwords to the bank’s internal controls. Technical skills are the individual’s ability to commit the act. For example, a banker may have the knowledge to use dormant accounts to his or her advantage or to withhold deposits. Individuals who have a non-shareable financial problem and are equipped with the general information and technical skills to correct the problem, will apply them and engage in criminal behaviour.

Cressey (1953) then went on to describe the rationalization component that is significant for a violation to occur. Rationalization, Cressey (1953) noted, is where the individual justifies the crime to make it more acceptable. It is argued that rationalization of the crime occurs long before the fraudster commits the act. Rationalization is part of the motivation for the crime. The fraudster usually rationalizes the crime by seeing it as non-criminal; justifying the act to make it seem more acceptable; and, as part of a general responsibility for which he or she is not accountable. These rationalization techniques are necessary for the individual to internalize and maintain the concept as a trusted person.
Other pioneers in researching occupational fraud are Albrecht, Howe, and Romney (1984). Albrecht and his colleagues believe that fraud is difficult to predict because of the absence of a reliable profile of the occupational fraudster (also see Dorminey et al., 2010: 19). To address this problem, they came up with the fraud scale. They proposed that the likelihood of fraud occurring can be assessed by using a fraud scale that encompasses the pressure, opportunity, and the individual’s personality integrity (Albrecht et al., 1984: 5). In many ways, Albrecht et al., (1984) model was similar to Cressey’s (1953) FT, in that they both came up with two elements that are common in fraud causation: opportunity and pressure. As noted earlier, pressure and opportunity are components of the FT, but Albrecht and company substituted rationalization for personality integrity as the third component of the fraud scale (Albrecht et al., 1984: 5-6). Albrecht and his colleagues’ fraud scale is more applicable to financial statement fraud, where the pressure (falling profits) and the opportunity (weak internal controls) to commit the fraud are more observable (Dorminey et al., 2010: 19-20). When pressure and opportunity are high and personality integrity is low, occupational fraud is much more likely to occur (Albrecht et al., 1984: 6).

Less synonymous with the other studies cited so far is Hollinger and Clark’s (1983) work on employee theft. Unlike Cressey (1953) and Albrecht et al., (1984) studies, Hollinger and Clark concluded that “employees steal primarily as a result of workplace conditions, and that the true cost of the problem is vastly understated” (Hollinger and Clark, 1983: 6). Hollinger and Clark did mention however, that there are five separated, but interrelated hypothesis that are significant in understanding occupational fraud. The first is external economic pressure, such as the non-sharable financial pressure described by Cressey (1953). The second hypothesis is that contemporary employees, especially the younger ones, are not as hard working as past generations. The third hypothesis is that every employee can be tempted to steal from their employer. This premise follows a Hobbesian reasoning and posits that people by their very nature, are greedy and dishonest. The fourth hypothesis is that most employees steal from their employers because of job dissatisfaction. The fifth hypothesis is that theft occurs because of the broadly shared formal and informal structure of the organization. Central to this hypothesis is that group norms, whether good or bad, become standard conduct within the organization.
The Evolution of Fraud Theory

Even though the FT has been debated and modified in the ensuing six decades since it was first introduced, its core elements still remain central as a modern fraud diagnostic tool. Perhaps the first set of scholars to modify the FT was Albrecht, Howe, and Romney (1984). Albrecht et al. (1984) believe that fraud is difficult to predict because a reliable profile of the occupational fraudster does not exist. To address this issue, they introduced the “Fraud Scale Model”. Albrecht et al. (1984) Fraud Scale suggest that the likelihood of fraud occurring can be assessed by examining the relative forces of pressure, opportunity and personal integrity. Unlike Cressey’s (1953) FT, Albrecht et al., (1984) replace the rationalization leg and replace it with personal integrity in the Fraud Scale. Albrecht and his colleagues define personal integrity as “the personal code of ethical behaviour each person adopts” (Albrecht et al., 1984: 18). The Fraud Scale is particularly applicable to financial statement frauds where sources of pressure (e.g. analysts’ forecasts, managements’ earnings guidance, a history of sales and earnings growth) are more observable (Dorminey et al., 2010: 19-20). When pressure, opportunity, and personal integrity are considered at the same time, one can determine whether a particular situation possesses a higher probability of fraud (p. 20). Rezaee and Riley (2010) expanded on Albrecht et al., (1984) work and agree that “integrity” is critical to personal decision-making and that violations of responsibility is at the heart of financial statement frauds.

Rezaee (2002) provided an alternative model to explain executive fraud. Referred to as the “3-C” model and consist of three components “Conditions”, “Corporate structure”, and “Choice”. “Conditions” refers to economic slowdowns, which increases the capacity for fraud. This view is shared by the ACFE who noted that fraud increases during times of economic distress (ACFE, 2012: 10). “Corporate structure” refers to ineffective and irresponsible governance, which increases the likelihood of fraud occurring (see Mardjono, 2005). “Choice” refers to the options between legal/ethical and illegal/unethical behaviours that the individual is confronted with before he or she decides to act. Rezaee (2005) supplemented the “3-C” model with five interactive factors that explain high-profile financial statement frauds. The five factors are: Cooks, Recipes, Incentives, Monitoring, and End -Results (CRIME), all of which can work to
influence fraud occurrence, detection and prevention. Rezaee’s (2002; 2005) works strengthened the pressure and opportunity legs of the FT and show how their interaction with other factors may increase the likelihood of fraud.

Wolfe and Hermanson (2004) introduced a fourth component, “capability”, to the FT and in so doing, transformed it to a “Fraud Diamond”. The Fraud Diamond extends the FT to incorporate the individual’s capability, i.e., the role that personality and behavioural traits play, given the presence of pressure, opportunity, and rationalization in fraud. According to Wolfe and Hermanson,

opportunity opens the doorway to fraud, and incentive [i.e. pressure] and rationalization can draw a person toward it. But 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 (2004: para. 6).

Accordingly, the critical question is, “Who could turn an opportunity for fraud into reality?” Wolfe and Hermanson (2004) suggests that there are four observable traits that must be considered for committing fraud: (1) The person’s position or function within the organization; (2) the person capacity to understand and exploit internal control weaknesses; (3) the confidence (ego) that s/he will not be detected, and if detected, s/he will talk her/himself out of it; (4) capability to deal with the stress committed within an otherwise decent and trustworthy person when s/he commits bad acts; and (5) the capability to lie effectively and consistently (Wolfe and Hermanson, 2004: para. 10-14). Wolfe and Hermanson’s (2004) fraud diamond gives consideration to the fraudster’s capacity to evaluate how the internal control system lends itself to manipulation to perpetuate the fraud. In this context, the fraud diamond modified the opportunity leg of the FT by limiting it to individuals who have the necessary capabilities to commit the fraud.

(“ADT”) of crime. Choo and Tan (2007) used the ADT to complement the FT and Albrecht et al. (2004) BTT. Their rationale was to address two significant limitations in the BTT: first, was that agency and stewardship theories mostly analysed executive behaviour in stable environments, but not in companies involved in fraud. As such, agency and stewardship theories’ assumptions that they can address fraudulent behaviour in both fraud and non-fraud companies was weak, because there is little evidence to support the theories’ assessment of executive behaviours from companies involved in fraud. Second, and perhaps a much more serious limitation was that the BTT related well to the Pressure and Opportunity legs of the FT, but not the Rationalization leg.

To address these limitation and better understand corporate executive fraud, Choo and Tan related the three key features of the ADT (intense emphasis on monetary success, corporate executives exploit/disregard for regulatory controls, and corporate executives justify/rationalize fraudulent behaviour) with the three variables of the FT’s concept (Pressure, Opportunity, and Rationalization)” (Choo and Tan, 2007: 2009).

More recently, Ramamoorti, Morrison, and Koletar (2009) proposed a useful conceptual approach call the A-B-C Model to analyse fraud. Ramamoorti et al. (2009) hypothesized that fraud occurs either because of an individual criminal’s calculated/intentional betrayal of trust, a duo or team of “bad boys” who push ethical envelopes, and/or an organizational/social/national culture of passivity, indifference or accommodation that is tantamount to condoning such behaviours (p. 2). Ramamoorti and his colleagues referred to their model as the bad Apple, bad Bushel, or bad Crop Syndrome: the so-called ABCs of white collar crime. The bad apple is the individual, the bad bushel addresses group influence in fraud, and the bad crop refers to the generational/cultural/societal antecedents that influence the fraud (p.7). While we have seen our fair share of bad apples and bad bushel in some of the more recent accounting scandals, it is the bad crop metaphor that perhaps has more of an impact on fraud theory. The bad crop component suggests that for white-collar crime to occur there must be some moral deficiency at the top of the organization, a problem that is also pervasive throughout the organization and society in general (Dorminey et al., 2012: 559).

Another model to capture the motivation (pressure) of the fraudster was suggested in the acronym M.I.C.E (Krancher, Riley, and Wells, 2010: 205). “MICE” which represents Money,
Ideology, Coercion, and Ego/Entitlement are seen as the primary motivating factors to commit fraud. Money (i.e., the financial pressure to associate with those committing the fraud) and Ego (the confidence that the perpetrator will get away with the fraud) are self-explanatory, and are the two most commonly observed motivations (see Cressey, 1953; Wolfe and Hermanson, 2004; Ramamoorti et al. 2009). Form this position, it is evident that “the roots of most fraud are the desire for greed (money) and power (ego) (Krancher et al., 2010: 205). There are times however, when “employees and others are victimized and unwillingly made part of the fraud scheme (coercion)” (p. 205). Coercion present a condition “where an individual is unwilling, but nonetheless pressured into participating in a fraud scheme (Dorminey et al., 2012: 563). Ideological motivation is consistent with the perpetrator’s belief to further justify the fraud. Ideological motivation is usually consistent with tax evasion schemes (Krancher et al., 2010: 205). While the M.I.C.E heuristic complements the FT’s concepts like pressure and rationalization, it also provide fraud examiners with a broader framework within which to consider an expanded set of motivators (Krancher et al., 2010: 205). M-I-C-E modifies the pressure side of the FT, by providing an expanded set of motivations beyond a non-shareable financial pressure (Dorminey et al., 2012: 563). Greed, power, and ego appear to provide extra motivation to commit fraud.

As is evident from the forgoing discussion, all the above mentioned fraud model have their merits and are steep in Cressey’s (1953) FT’s framework. Collectively, the models suggests that situational and moral components are all critical for gaining an understanding of the unethical behaviour that could eventually lead to fraud (see Cohen, Ding, Lesage, and Stolowy, 2011: 271). Fraud is multifaceted and is a reflection of the perpetrator’s surrounding habitat. The presence or absence of fraudulent behaviour is influenced by a multitude of sociological, psychological, and environmental factors that affects behaviour (Gabbioneta, C, Greenwood, R, Mazzola, P, and Minoja, 2013). This interrelated complexity has made it difficult for researchers to come up with a unidirectional causal theory of fraud (Mitchell et al., 1998: 591-594). As a result of the lack of consensus in the literature as to the causes of fraud, there is no reason to believe that the FT or any existing model can explain the majority of corporate accounting frauds (Donegan and Ganon, 2008: 16). The eclectic nature of fraud does not lend itself to such an explanation. Consequently, if we are to accept that there is no unified conceptual framework to
explain the causes of fraud, the FT as adopted by both the AICPA and ACFE, cannot be seen as
the only valid model to explain all occurrences of fraud.

Having reviewed these studies, what does it tells us about occupational fraud? Well, in many
ways, it seems as if Cressey (1953) was on to something with his FT’s concept. More often than
not, we come back to the three elements of the FT, with very few exceptions. Albrecht et al.,
(1984) and Hollinger and Clark (1983) have extended our knowledge of the detection of
occupational fraud; but, fundamentally, we are back to where Cressey (1953) left us many years
ago. Recall that with Cressey’s (1953) FT, employees are motivated to commit occupational
fraud because they face a non-shareable financial problem, which if known, will threaten their
status (Albrecht, 2014). It then follows that the perpetrator engages in illegal conduct only if s/he
perceives that there is an opportunity to fix the non-shareable financial problem that can be
rationalized without getting caught.

An Analysis of the Conceptual Critique of DAT

Cultural Deviance Critique

Many of the criticisms that are leveled against DAT come from control theorists (Hirschi, 1969;
Kornhauser, 1978; Gottfredson and Hirshi, 1990). These criticisms take two forms: the cultural
deviance critique; and the motivation of criminal behaviour. Control theorists’ critiques against
cultural deviance theories are now widely known amongst criminologists as the cultural deviance
critiques. Central to the cultural deviance critique of DAT is that “man has no nature,
socialization is perfectly successful, and cultural variability is unlimited” (Kornhauser, 1978:
34). Control theorists’ critique of the quintessential representation of cultural deviance theories
(i.e., DAT) surrounds the “logical adequacy” of their underlying assumptions (Costello, 1997).
From this viewpoint, cultural deviance theories (namely DAT) “are problematic in a logical
sense because one can derive from them a set of incoherent assumptions that leave nothing left to
explain” (Kalkhoff, 2002: para. 7). The central premise of these assumptions are that DAT
cannot explain individual differences; it is doomed to apply only to group differences in crime
that rest on the adherence of a criminal or deviant subculture (Akers, 2009: 91).
Control theorists have been harshly criticized for their caricature of DAT (Matsueda 1988; Bernard and Snipes 1996; Akers, 2009). Control theorists’ adversaries argue that the cultural deviance critique of DAT can be seen as a “gross misrepresentation” with “misconceptions and oversimplifications” (Matsueda 1988: 293; Akers, 2009: 91). DAT is explicitly designed to account for individual variations in crime, not just group differences (Akers, 2009: 91). As can be seen in Table 1-1, Sutherland’s propositions clearly make the distinction between individual behaviour and differential social organizations as a theory of group differences (see Sutherland, 1947: 6). DAT “posit[s] individual deviance as coming from the person’s holding definitions favourable to norm-violating acts that are shaped by relatively greater exposure to deviance than to conventional normative definition” (Akers, 2009: 93).

Therefore, the extreme case in which an individual’s deviance is based entirely on his or her having been socialized solely in, and having completely internalized the dictates of, a deviant subculture without contact with conventional society is consistent with differential association theory (p. 93).

But DAT does not propose that everyone socialized within the same subculture will conform to the norm, nor does it propose that there is no possibility that individuals will violate group norms (p. 93). It is not the amount of exposure to deviant groups that matters, but the ratio of association with deviant groups that provides the key to understanding Sutherland’s explanation of criminogenic behaviour (Gill, 2017). Therefore, the defining characteristics attributed to DAT from control theorists only apply if one limits their scope to the most extreme cases (p. 93).

**Motivation for Criminal Behaviour**

The cultural deviance critique depicts the differential association process in criminal behaviour as one in which the internalization of definition favourable to crime (1) requires the individual to behave in violation of conventional norms, and (2) provides the motivation for criminal behaviour (Akers, 2009: 96; also see Coleman, 1987: 15). Hirschi the chief architect behind this position notes that “[t]heories in the cultural deviance tradition suggest that in committing his acts the delinquent is living up to the norms of his culture. These theories usually suggest the
existence of belief that positively requires delinquent acts (Hirschi, 1969: 167). Kornhauser in her critique of cultural deviance theories, supported Hirschi’s (1969) position and argued that “[i]nternalized cultural values according to [DAT], provides the sole basis of motivation...This view [Sutherland] assumes first that there are no other determinants of human behaviour than values” (Kornhauser, 1978: 195-196). The internalization of beliefs by all members of the group, coupled with the successful socialization of these beliefs makes it unlikely for them to act contrary to the deviant norms of the group. Since no one is capable of deviating from the deviant norms of the group, only the group culture can be seen as deviant (Hirschi, 1969; Kornhauser, 1978; Costello, 1997).

This criticism however, is least accurate and is based on an assumption rather than on explicit propositions of DAT (Matsueda, 1988). Neither Hirschi (1969) nor Kornhauser (1978) identified any specific propositions in Sutherland’s work that led them to interpret DAT in this manner. As a matter of fact, there is no reference at all in DAT that restricts the concepts of definition favourable to crime to norms that ‘positively require’ deviant acts. Nor is the claim made anywhere in the theory that definitions are the only cause of crime. However, the theory is more vulnerable to this critique because of uncertainties as to exactly what Sutherland meant by ‘definitions’ and the role they play in motivating law violations (Akers, 2009: 97).

Perhaps the fourth and fifth principles of DAT (see Table 1-1) can give some clarity on this issue. The fourth principle notes that learning criminal behaviour includes the “techniques” and the “motives, drives, rationalizations, and attitudes,” while the fifth principle hypothesizes that “the specific direction of motives and attitudes is learned from definitions of the legal codes as favourable or unfavourable” (Sutherland, 1947: 6). Deducing from these two principles, there is little doubt that ‘rationalization’ and ‘attitudes’ are subsumed under the general concept of definitions – normative attitudes or evaluative meanings attached to given behaviour. Exposures to other shared definition are a key (but not the only) part of the process by which the individual acquires or internalizes his or her own definitions. They are orientation, rationalizations, definition of the situation, and other attitudes that label the commission of an act as right or wrong, good or bad, desirable or undesirable, justified or unjustified (Akers, 2009: 78).
When looked at in this context, DAT runs counter to the cultural deviance critique that the exposure to definitions favourable to crime will motivate individuals to commit crime. Rather, it reiterates the central principle of DAT which states that, “when persons become criminal, they do so because of contacts with criminal patterns and also because of isolation from anti-criminal patterns” (Sutherland, 1947: 76).

The on-going debate between proponents of these two branches reveals some useful insights surrounding the FT concepts. As mentioned earlier, the FT has been criticised for being an inaccurate descriptor of the motivations of fraud (Gill, 2017; Lokanan, 2015; Morales et al., 2014); its inability to address collusive behaviour (Dorminey et al., 2010); and the observability of rationalization elements of fraud (Murphy, 2012). However, as is evident from the foregoing literature review and the conceptual critiques, DAT informs our knowledge on the decision-making process that the fraudster used when determining the pressure, opportunity, and internalization of the rationalization elements to commit fraud. In so doing, DAT provides useful insights that aid our understanding of the FT concepts.

**Methodology**

**The Case Study Approach to Fraud**

Cooper and Morgan (2008) advocate the case study approach to study accounting phenomena. According to Cooper and Morgan (2008), case studies can enhance research and help understand complex accounting issues (p. 165). To better understand the relevance of the FT, the analysis is informed by anecdotal evidence from three high-profile cases of corporate accounting frauds. Livent, WorldCom and Enron are among the worst corporate accounting frauds to have occurred over the last decade-and-a-half. While these cases can be considered exceptional, I argue that the cases should not be viewed as being exceptional in nature. Rather, cases such as Livent, WorldCom and Enron can provide useful insights to strengthen existing theories and inform practices (see Cooper and Morgan, 2008). Indeed, it is often with the help of “extreme cases,” that a better understanding of some of the basic mechanisms that are of general relevance are understood; a phenomenon that can be difficult to discern in “average” cases, where these mechanisms are less transparent (Stolowy, Messner, Jeanjean, and Baker, 2013: 13). In a similar
manner, Livent, WorldCom and Enron, can be used to provide valuable insights on accounting fraud and open up new areas for research.

I am well aware that anecdotal evidence can be considered a constraint and seen as weak evidence without empirical validation. However, this paper is written to provoke thoughts and gain new insights on the behavioral and social characteristics considered in assessing fraud risks. It is expected that this line of inquiry will ideally lead to empirical research that is highlighted in the conclusion. Cases such as Enron and WorldCom are well known to a world audience. Consequently, one may rightfully expect readers to possess basic knowledge of these cases. However, the same cannot be said for localized cases such as Livent. Without a background to this case, it may leave readers ‘wanting’. As such, a brief description of the cases could prove useful.

**Case 1: Livent**

The Live Entertainment Corporation of Canada Inc. (“Livent”) was a Toronto based company that produced live theatrical entertainment, at its own theatres in Toronto, Vancouver, and New York. Livent’s productions include *Show Boat*, *The Phantom of the Opera*, *Joseph and the Amazing Technicolor Dreamcoat*, *Ragtime* and *Kiss of the Spider*. Led by co-founders Garth Drabinsky (“Drabinsky”) and Myron Gottlieb (“Gottlieb”), Livent was considered the second-largest theatre chain in North America at the time of its collapse in 2001. The Livent’s fraud was described by the United States Securities and Exchange Commissions (SEC) as “pervasive and multi-faceted,” and defrauded shareholders of more than $500 million Canadian dollars. Two features of the Livent fraud were particularly disturbing to SEC’s officials. First, Livent’s accounting and IT staff were instructed by senior management to create a computer software program that would allow them to manipulate their books and mask the real numbers from auditors (SEC, 1999). The second troubling feature was the manner in which Livent’s management team and accountants planned and carried out the fraud (Knaap and Knaap, 2009; Lokanan, 2014). Livent had a very aggressive growth-oriented management team who worked with the accountants to artificially inflate invoices, understate expenses in order to fraudulently inflate earnings, and inflate revenue through “revenue-generating” agreements to meet quarterly
and annual projections provided to Wall Street analysts (Securities and Exchange Commission 1999: para. 4-6).

Case 2: WorldCom

WorldCom was America’s second largest telecommunications company when it was exposed for an $11 billion accounting fraud in 2003. WorldCom’s fraud shared similar features of other major accounting frauds. Similar to Livent, WorldCom’s CEO Bernard Ebbers (“Ebbers”), CFO Scott Sullivan (“Sullivan”), Controller David Myers (“Myers”) and Director of General Accounting, Buford Yates (“Yates”) – devised a scheme to mask the Company’s failing profitability. The WorldCom’s circle of executives and accountants were able to do this in two ways: first, WorldCom’s accounting department underreported line costs by capitalizing them on the balance sheet, rather than expensing them in the income statement. Second, WorldCom inflated revenue by posting fake accounting entries from ‘corporate unallocated revenue accounts’.

Case 3: Enron

When the Texas-based energy giant Enron collapsed, it was to go down as the mother of all accounting frauds. Led by Enron’s Chief Jeffrey Skilling (“Skilling”), a circle of executives in Kenneth Lay (“Lay”), Andrew Fastow (“Fastow”) and the Company’s accountant, Arthur Andersen’s David Duncan (“Duncan”), used non-consolidated special purpose entities (“SPEs”) that did not need to be on the Company’s balance sheet to conceal losses and inflate earnings. Enron’s debts and losses were reported in these SPEs, and were not included in its financial statements. This resulted in Enron posting inflated record profits that were completely fraudulent. As a result, it was estimated that Enron’s shareholders lost over $74 billion.

DAT and the FT applied to Corporate Accounting Frauds

In this section, I synthesize and discuss the principles of DAT that parallel the three legs of the FT. Here I will only use the principles of DAT that are relevant to the paper. This synthesis is
done primarily to provide evidence to support the theoretical attributes of the FT. As can be seen in Table 1-2, DAT gives priority to the power concerning the influence of perceived pressures, learning opportunities, and rationalization, and can be expressed in terms of a series of propositions, which are condensed as follows:

A. Criminal behavior is learned in a process of communication and interaction with an emphasis on monetary success (Pressure);

B. Learning takes place primarily in intimate personal groups and includes not only the techniques, but the opportunity to commit the crime (Opportunity); and

C. A person becomes delinquent because of an excess of definitions favorable to violation of law over definitions unfavorable to violation of law (Rationalization)

Table 1-2: The Fraud Triangle Attributes, Shortcomings, and DAT Synthesized

<table>
<thead>
<tr>
<th>Fraud Triangle Attributes</th>
<th>Fraud Triangle’s Shortcomings</th>
<th>DAT Synthesized to Address Shortcoming of the FT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Pressure</td>
<td>Perceived pressure is an inaccurate descriptor of fraud</td>
<td>Criminal behaviour is learned in a process of communication and interaction with an emphasis on monetary success</td>
</tr>
<tr>
<td>Perceived Opportunity</td>
<td>Does not address collusive behaviour</td>
<td>Learning takes place primarily in intimate personal groups and includes not only the techniques, but the opportunity to commit the crime</td>
</tr>
<tr>
<td>Rationalization</td>
<td>Non-observable</td>
<td>A person becomes delinquent because of an excess of definitions favourable to violation of law over definitions unfavourable to violation of law</td>
</tr>
</tbody>
</table>

*Criminal behavior is learned in a process of communication and interaction with an emphasis on monetary success (Pressure)*

Central to this proposition is the notion that once an individual’s peers view crime as acceptable, that individual may gravitate towards that direction. Similarly, the motives for corporate accounting fraud are neither inborn, nor predetermined; criminal executives learn the trade from their co-workers who are already involved in fraudulent conduct. As new executives enter a
corporate culture that is focused on achieving the bottom line, they too must be indoctrinated to focus on an organizational culture that places short-term profits over the long-term sustainability of the company (Coleman, 1987; Lokanan, 2014).

Table 1-3: Criminal behavior is learned in a process of communication and interaction with an emphasis on monetary success (Pressure)

<table>
<thead>
<tr>
<th>Livent</th>
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<tbody>
<tr>
<td>In 1998, Livent was under severe debt that was incurred by Drabinsky and Gottlieb to finance the Company’s lavish productions. Realizing that the Company was in dire need of money to meet its earnings target, Drabinsky and Gottlieb in collaboration with Livent’s accounting staff, engaged in an array of ‘accounting manipulations’ to obscure the Company’s financial problems. Drabinsky, who was mostly interested in Livent’s bottom-line, would direct Maria Messina (“Messina”) the chief accountant, to arbitrarily adjust the accounts for each reporting period. Messina, a Chartered Accountant with no prior disciplinary record, eventually joined in the scheme after arriving at Livent and soon realized that learning to conceal the fraud from the auditors was amongst her primary responsibilities and acquiescence to the practice.</td>
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<table>
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<tr>
<th>WorldCom</th>
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<tbody>
<tr>
<td>WorldCom’s senior executives and the inner circle of decision-makers were indoctrinated into a sub-culture of “greed” characterized by deviant behaviour. WorldCom fostered a culture that “implicitly forbid scrutiny and detailed questioning.” Through their interaction and association with executives who were already “experts” at committing fraud, WorldCom employees were encouraged to deviate from regular accounting treatment to “inflate revenues” and “when ... actual earnings faltered, their top management resorted to a smorgasbord of manipulation to falsely inflate ... earnings” in order to meet Wall Street’s expectations.</td>
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</table>

**Enron**

Enron had a corporate culture that bred both corruption and disreputable behaviour from the executives, namely Lay, Skilling, Fastow and its auditors Arthur Andersen, to the lawyer, Nancy Temple (“Temple”), consultants, and lenders. The pressure to become “the world’s leading energy company” led Enron’s executives, Arthur Andersen, and its consultants, to model their behaviour to put revenue and earnings above all else.


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**Learning takes place primarily in intimate personal groups and includes not only the techniques, but the opportunity to commit the crime (Opportunity)**

Individuals who are involved in fraudulent practices have their own learning mechanisms, where they learn to circumvent the law. According to Box (1983), such learning is not coercive, but normative because these individuals have choices. Executives who commit corporate accounting frauds “are not coerced into it, they do not necessarily have to go along with the advice or instructions of superiors. They are men [and women] who rationally weigh up the advantage of conformity to criminal demands or staying on the path of righteousness” (Box, 1983: 43).

Braithwaite (1984), in his work on the pharmaceutical industry, also echoed Box’s (1983) concerns. According to Braithwaite, the Directors of a company facing financial strain may say to an executive, “look, it [is] your concern to get around this problem the best way you can. I don’t want to know how you do it, but just get the job done” (Braithwaite, 1984: 322). It is expected that as a rational individual, the executive would weigh up the instructions and decide whether to proceed with them or not. In deciding whether to break the law or comply with regulations, the executive in the course of his or her duty would take a key attribute into consideration: opportunity (see Singleton & Singleton, 2010; Albrecht, Albrecht, Albrecht, Zimbelman, 2012). Opportunity is where the individual is equipped with the general information and technical skills to commit the fraud. Some examples of opportunity are lack of supervision,
poor internal controls, weak enforcement, and the lack of disciplinary actions for previous frauds.

**Table 1-4: Learning takes place primarily in intimate personal groups and includes not only the techniques, but the opportunity to commit the crime (Opportunity)**

<table>
<thead>
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<th>Livent</th>
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<tbody>
<tr>
<td>Livent did not have any internal control mechanisms in place to detect fraud. The collusive behaviour of the executives and accountants, coupled with the lack of controls, presented ample opportunities for them to manipulate and prepare fraudulent financial statements.</td>
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</table>


Gordon Eckstein (“Eckstein”), Livent’s Senior Vice-President of Finance and Administration and Messina’s superior, “allegedly instructed a subordinate”, Raymond Cheong (“Cheong”), Livent’s manager of information technology, to develop a computer software program that would solve Livent’s problem. Eckstein instructed two senior controllers at Livent, Diane Winkfein (“Winkfein”) and Grant Malcolm (“Malcolm”), to make the adjustments in the Company’s accounting system using the new computer program, which allowed them to make the adjustments without a trace in order to hide the fraud from the Company’s auditors.


**WorldCom**

Fraudulent accounting practices at WorldCom were a collusive action among Ebbers, other senior Company executives, Sullivan, and subordinate accountants in conjunction with weak controls. Top management at WorldCom set unrealistic growth targets to be achieved with an aggressive philosophy. Increased pressure by management on WorldCom’s accountants to meet these aggressive targets created a culture of dishonesty and illegal practices that became a norm. A great deal of emphasis was put on “team work” and being a strong “team player to reduce dissention among the ranks, which led to a groupthink” attitude. These coupled with poor segregation of duties (reconciliation preparation and reviews, and journal preparation and reviews) helped to conceal the fraud.

Enron

In Enron, the main players Lay, Skilling, Fastow, and Duncan all colluded to ignore and/or manipulate internal control weaknesses to commit fraud. More specifically, Fastow was exempted from a conflict-of-interest policy, and the internal controls over the Special Purpose Entities (“SPEs”) were a scam. Enron’s vertical organizational structure led to other control deficiencies, such that foreign assets were not physically secured, tracking of daily cash was lax, debt maturities were not scheduled, off balance sheet debt was ignored although the obligation remained, and company-wide risk was disregarded. Internal controls were inadequate and contingent liabilities were not disclosed. All of these control weaknesses were ignored by Arthur Andersen.


A person becomes delinquent because of an excess of definitions favourable to violation of law over definitions unfavourable to violation of law (Rationalization)

The social psychology and criminology literature both provide a great deal of help in understanding rationalization. Criminologists Sykes and Matza (1970), in their work on neutralization theory, argue that street criminals normally use “the techniques of neutralization” to rationalize their acts. Ashforth and Anand (2003), note that fraud becomes normalized/justified within an organization and supported by the top brass of the company. Murphy and Dacin (2011), building on the work of Bandura (1999) (theory of moral disengagement) and Festinger (1957) (cognitive dissonance theory), found three psychological pathways to fraud nestled within attitude/rationalization: (1) lack of awareness, (2) intuition coupled with rationalization, and (3) reasoning – the perceived benefits outweigh the costs. Taken together, these pathways show that executives rationalize their criminal acts because they see it as a necessary part of their job. This point is well documented in the literature on white-collar
criminals (Lehman and Okcabol, 2005; Ball, 2009). It is not unusual to find a strong correlation of a “rationally calculating business person pursuing both private interests and the interests of the corporation” at the same time (Price & Norris, 2009: 543). Senior executives of a company “may well have a particular facility for rationalization” (Cohan, 2002: 287). Unfortunately, this vanity from the senior executives “often triggers a cascade of conforming behaviours that, in turn, reinforce those vanities” (p. 87).

Table 1-5: A person becomes delinquent because of an excess of definitions favourable to violation of law over definitions unfavourable to violation of law (Rationalization)

<table>
<thead>
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<th>Livent</th>
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<tr>
<td>Drabinsky adopted an attitude that deflected blame and never confessed that he directed the fraud at Livent, despite evidence to the contrary. His adopted rationalization technique was to diffuse responsibility of the fraud elsewhere, so as not to hold himself responsible. At his parole board hearing, Drabinsky said that his accounting staff perpetrated the fraud without his knowledge, even though they were impelled by the ‘force of my character.’</td>
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<table>
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<tr>
<th>WorldCom</th>
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<tbody>
<tr>
<td>Senior management’s misconduct at WorldCom was pervasive. Ebbers demanded results and morally justified what he and the other executives were doing. In so doing, Ebbers appeared to scorn the procedures (and people) that would have address misreporting. When efforts were made to establish a corporate Code of Conduct for WorldCom, Ebbers reportedly described it as a “colossal waste of time.” On occasion, he was alleged to be emotional, insulting, with express reference to the personal financial harm he faced if the stock price declined.</td>
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<tr>
<th>Enron</th>
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Fastow, who was originally indicted on 98 criminal counts, justified his behaviour, saying to himself, “Well, my creative off-balance-sheet deals are helping Enron meet its financial statement goals. Why can’t I just take a million here and there for myself as a ‘structuring fee,’ just like Lay has been taking a little Enron money and transferring it to his sister for all these years?”


An Enron employee informed Lay about the SPE’s that were used to hide Enron’s debt and generate revenue from trades. The “warning” about the partnership was met with a shrug: “Tell me something I don’t know.”


Weighing the Anecdotal Evidence: How does DAT explain Pressure, Opportunity, and Rationalization?

DAT and Pressure

Unlike psychological and biological explanations, which see pressure to commit crimes as the product of unquenched desires, DAT sees pressure as being learned and influenced by primary intimate subcultures. The individuals’ behaviours are particularly influenced by the subculture that they are attached to, which make certain courses of action more appealing, while others are excluded. Within these subcultures, executives learn criminal behaviour just like any other behaviour. Perhaps this is because “criminality, like any other behaviour, is learned from others in social settings and thus behaviour varies with differences in association” (Donegan and Ganon, 2008: 6). Some individuals by their very nature have an egoist mentality, are selfish, have no principles, self-respect, and are inclined to cheat others (Murphy and Dacin, 2011: 605).

Among corporate executives, there will be a small cohort with these personality traits. It is this cohort that sees fraudulent accounting practices as an avenue to amass wealth, prestige, power, and boost their egos (Dedoulis, 2006; Brennan and Conroy, 2013). These traits are what ignite
and accelerate the propensity of senior executives to commit fraud. Strong will and imperious executives who “emphasize profit-maximization at all costs, and that cheating is okay if you can get away with it”, feed upon this moral deficit and acquaint themselves with individuals who exhibit these traits (Cohan, 2002: 287). Such behavioural traits are needed if the company is to meet financial analysts’ expectations. Consequently, many executives may not be experiencing a non-shareable financial pressure to circumvent the law, but they may find themselves embedded in an environment that is already criminogenic and may have to act “in accordance with the norms of the subgroup within which they are embedded” (Donegan and Ganon: 2008:7; also see Dedoulis, 2006: 157-158).

**DAT and Opportunity**

The basic assumption of DAT is that criminal behaviour results from a coincidence of pressure and opportunity. Criminal behaviour is learned in intimate personal groups, where individuals use their occupation to seek out a solution to the perceived pressures they are experiencing. The characteristics of their criminal act(s) are dependent on the characteristics of the sub-groups to which they belong and the associations formed between the individuals within these groups. These characteristics combine to affect the opportunities to commit crime. The specific content of criminal behaviour depends on these associations. Goal-oriented executives will use these opportunities to circumvent legislation. Acting within the purported security of their intimate personal group, the possibility to circumvent legislation coupled with the low possibility of getting caught, creates an opportunity for fraud (Murphy and Dacin, 2011: 604). As we have seen in the cases, these opportunities may be weak internal controls, management overrides of controls, and privileged access to company records etc. The opportunity to commit the fraud is not something that was suddenly discovered, as in a street deviant who steals the jeweller’s watch while the jeweller was away from the counter. Rather, a careful analysis of the frauds committed by the senior executives from the cases mentioned above, revealed that the opportunities were very organized and cleverly camouflaged with the help of accountants, lawyers, and IT experts. The image is one where specialized knowledge and techniques were used to redesign the companies’ internal control system to create opportunities for fraud.
DAT and Rationalization

Like pressure and opportunity, another element of behaviour learned in intimate groups and considered by DAT is the rationalization that accompanies the fraud. The rationalizations are related to principles five and six of DAT, where law violations are dependent on the excess of definitions favourable or unfavourable to the law (see Table 1-1). Principle five and six were certainly important to Cressey (1953) in his formulation of the FT. Cressey (1953) in his related concept of “verbalization,” found the internal conversation that the perpetrator has with himself to rationalize his behaviour, can serve as a motivating factor to remove guilt (also see Murphy and Dacin, 2011: Murphy, 2012). In his interviews with institutionalized embezzlers, Cressey (1953) found that the subjects used a number of “techniques of neutralization” (Skyes and Madza, 1957) to rationalize their behaviour (Coleman, 1987: 410). The “verbalization” or the words and phrases that embezzlers used to rationalize their actions (and inaction), were the more important element that got them into trouble (Cressey, 1953: 111).

A similar pattern emerged from the evidence presented in this paper. The perpetrators adjusted their construction of the fraud to internalize their guilt. The executives from all three companies became involved in fraud because of an increase in contact favourable to criminogenic practices and a decrease in contact with anti-criminogenic practices. Through these associations, individuals (for instance Messina, the accountant at Livent) were exposed to a sub-culture that consisted of both criminal and non-criminal individuals. The level of involvement by the “clean” individuals (in this case Messina) was dependent upon the frequency and duration of her contact with the “criminal” individuals (in this case Drabinsky and Gottlieb – the executives who were already experts at committing corporate accounting fraud at Livent). In all three cases, the executives whose attitudes favour fraud and see no harm in rationalizing their actions, were more inclined to circumvent ethical guidelines and regulations governing their conduct (also see Dedoulis, 2006; Murphy, 2012; Seitz et al., 2015).

Table 1-5 above further provides anecdotal evidence of senior executives’ attitudes and propensity towards group rationalization. Drabinsky, Ebbers, Lay and the inner circle of corporate shenanigans, all had innate cultural and organizational knowledge of how to act
deceivingly, and may have felt a sense of guilt, but somehow were able to find rationalization techniques to blur out their fraudulent conduct. The proclivity to perform and meet financial targets serves as incentives for them to exploit rules and regulations that stand in the way of corporate success, and at the same time, provides them with rationalization for their non-compliance with the rules and regulations that govern their conduct (Choo and Tan, 2007: 211-212). By observing the rationalization of non-compliance from senior executives, the inner circle of accountants, IT experts, and lawyers who were part of the frauds in Livent, WorldCom, and Enron, neutralized and temporarily suspended their commitments to the ethical guidelines and rules guiding their practices (also see Dedoulis, 2006: 159-160; Murphy and Dacin, 2011: 608-609). Consequently, while these individuals may understand that “they are ‘technically’ violating the laws, the culture of the organization nullifies the significance of the illegality” (Simpson, 2003: 54). It is no wonder then, that they were all involved in what Mary Jo White, former U.S. attorney for the Southern District of New York, termed “group rationalization” (Carozza, 2007: para. 34; also see Ashforth and Anand, 2003). A rationalization technique used by executives and their inner circle of support staff to “rationalize their pay packages” as well as arcane and aggressive accounting practices (Carozza, 2007: para. 34).

Conclusion

The FT is not a general theory of crime and cannot explain every occurrence of fraud (Huber, 2017). Informed by DAT, the FT can be seen as a useful framework that aids in the understanding of how and why people commit fraud, but not a scientific theory to explain fraudulent behaviour (Albrecht, 2014; Gill, 201; Lokanan, 2015; Morales et al., 2014). Cressey (1951) did not conduct a rigorous scientific study; he did not do a double blind study with match test and control groups. He conducted interviews of convicted corporate fraudster and recorded his observations (Gill, 2017: para. 25). The fact that the FT appears in the Fraud Examiner’s Manual and in SAS 99 indicates that is it is a pivotal tool use by fraud investigators and auditors to detect and prevent fraud (Gill, 2017). However, this does not mean that the FT that it is a general scientific theory of crime; rather, its flexibility and adaptability in different context suggests that it has the underpinning of a framework (informed by DAT) to guide fraud inquiry.
(Gill, 2017: para. 42). It is in this sense that the anti-fraud establishment must endeavor to understand the theoretical and practical contribution of the FT.

In the beginning, I mentioned that this paper makes both theoretical and practical contributions to the literature on corporate accounting fraud. Theoretically, the paper contributes to the understanding of the FT’s concepts in three ways. The first relates to the pressure leg of the FT. Executives need to learn a set of values that support corporate accounting fraud, and they need to learn the specific behaviours and techniques to commit these frauds. These values are all learned through a process of interaction in intimate groups. The learning process within the groups involves the same mechanisms, whether a person is learning criminality or conformity. DAT seeks to explain the content and process of corporate accounting fraud via corporate sub-cultures and the techniques in which criminal behaviour is learned through these sub-cultures. Along these lines, DAT explains corporate accounting fraud as pressure placed on individuals in corporate cultures with an exaggerated emphasis on monetary success.

The second theoretical contribution relates to the opportunity leg of the FT. Some argue that the group nature of fraud can be thought of as part of “opportunity” (Free and Murphy, 2013). That is, a culture in which fraud is considered acceptable provides an easy opportunity to commit fraud. Perhaps the issue is not with the FT itself, but how it was interpreted and applied. Being involved with a group that accepts fraud as part of the culture of the organization may predispose the individual to becoming criminogenic. The anecdotal evidence reveals that collusion can provide important means through which opportunities for committing the fraud becomes apparent to executives. Group trust and loyalty can cement a group together and further equip individuals in the group with the general information and technical skills needed to commit fraud in organizations (Murphy and Dacin, 2011).

The third theoretical contribution provides additional insights into the rationalization leg of the FT, in the presence of both perceived opportunity and perceived pressure (also see Murphy, 2012). Individuals tasks with preparing companies’ financial reports will demonstrate a range of attitudes towards obeying the laws and committing fraud - some favourable and some unfavourable. The anecdotal evidence presented, shows that individuals who acquire more
attitudes that are favourable to crime, rather than unfavourable ones, will rationalize criminal behaviour as acceptable. In other words, corporate accounting fraud emerges when the executives and their inner circle of accountants and lawyers are exposed to messages favouring fraud and provide easy rationalizations for them to justify their misconduct. As such, the paper contributes to a wider body of literature on fraud and subsequently, further enhances our understanding of the construct of rationalization (Ashforth and Anand, 2003; Murphy, 2012; Murphy and Dacin, 2011).

Practically, the application of DAT has expanded on the nuances of the elements of the FT towards fraud detection. Practitioners and standard setters can use DAT to further inform their understanding that the motivation to offend needs not be a non-sharable financial pressure. That is, the financial pressure can exist, but it does not have to be non-sharable. Clearly, the ACFE and AICPA must look at DAT in a new light to inform the FT and sharpen their fraud risk assessment tools. Due to the increasingly complex nature of forensic accounting engagements, there is a need for forensic accountants to add more breath and depth to their training (Davis et al., 2010). While technical accounting is important in forensic accounting engagements, it is the ability to understand the nature of the underlying motivations, opportunities, and rationalizations of fraud from various lenses that lends perspective to the criminogenic issues being investigated (DiGabriele, 2008). DAT is well positioned to inform the FT and contribute to the essential traits and core skills that forensic accountants are expected to possess in order to be effective in fraud investigation engagements.

Suggestions for Future Research

The intention of this paper was not to position DAT as a replacement of the FT, but to present sufficient evidence to show that the concepts and propositions of the theory do have the potential to expand our understanding of the FT concepts. DAT seeks to explain the content and process of corporate accounting fraud via sub-culture and specific techniques in which criminal behaviour is learned through these sub-cultures. The techniques of learning criminal behaviours are the same; however, the contexts are considered to be different. It is also clear that a certain process of association contributes to fraud, and not just the mere association with criminal sub-
cultures. However successful this endeavor has been, much still needs to be done to make the relationship between DAT and the FT more explicit.

The next step is for researchers to collate accurate and reliable data in order to examine the process in which corporate accounting fraud is learned in the course of the perpetrators’ occupation. Testable hypothesis can be developed to examine the causal connections between social learning and accounting fraud. Sutherland’s DAT posits that the “variation in frequency, duration, priority and intensity of association with delinquent behaviour patterns accounts for delinquent behaviour” (Reiss and Rhodes, 1964: 6). One potential area of research then, is to develop a test of DAT to show how the modalities of association with criminal and anti-criminal corporate sub-cultures vary among criminal and law-abiding corporate executives. Additional research may want to look at the intensity of association and examine whether the inner circle of executives’ involvement in criminal behaviour is associated with co-workers also having previously engaged in criminal behaviour. Such a hypothesis can fruitfully test the assertion of executives becoming corporate criminals due to repeated contact with criminal activities and a lack of contact with non-criminal activities.

References


