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**AN INVESTIGATION OF INDIVIDUAL AND ORGANIZATIONAL
FACTORS ON INTENTION TO FRAUD**

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Abstract

After the occurrence of various factors that bring about fraud and increasing fraud in organizations, institutions try to find a solution to the problem. The main objective of our study is to analyse the individual and organizational factors which lead to detrimental behaviours particularly fraud and to examine the relations between intention to fraud and job engagement. In this frame, the relationship between individual and organizational factors and the intention to fraud is discussed and the connection between intention to fraud and job engagement has been examined in the light of collected data. In addition, the mediator role of intention to fraud between individual and organizational factors and job engagement has been examined.

The main objective of the study is to make a contribution to organizational behaviour literature concerning fraud. In this context, in several cities, data is collected a sample of employees from various sectors through survey method. The collected data were analysed. The results show that there is positive relationship between individual and organizational factors and intention to fraud, and positive relationship between intention to fraud and job engagement. Finally, the mediator role of intention to fraud between individual and organizational factors and job engagement is revealed.

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Keywords: Fraud, job engagement, intention to fraud, counterproductive work behaviour (CWB).

1. Introduction

Today's dynamic and high-pressure workplace raises counterproductive workplace behavior about employee behavior. Counterproductive workplace behavior indicates volitional employee behavior aim for abusing organizations and employees for threatening effective organizational functioning (Spector & Fox, 2002). For example, verbal and physical abuse, performing task incorrectly, withholding effort and theft continues to be challenge for organizations (Matta, Korkmaz, Johnson, & Bıçaksız, 2014). Counterproductive workplace behavior affects both organizations and employees' welfare negatively. One of the most common counter workplace behavior is employee fraud (Marcus & Schuler, 2004). In the literature the negative effects of employee fraud have been investigated in aspect of both organizations and countries. Employee fraud have a bad influence on customer loyalty, organizational prestige and reputation, decreasing credibility via creditors as well as financial losses. For example, corporate scandals in Enron and Worldcom have savaged the reputation of this organizations as well as depleting their assets.

In the last decade, many studies have been focused on deviant behavior and employee fraud especially in Western countries. However, few studies have been investigated the outcomes of workplace fraud in Turkey. Additionally, past studies did not carry out the reasons of employee fraud intention comprehensively. According to Hollinger & Davis (2006), it is hard to explain the reasons of fraud in organizations and earlier researches are inadequate for developing and empirically testing the model. Moreover, employee fraud is investigated business ethics discipline however in organizational behavior context studies are nascent.

Therefore, the aim of this study is to empirically test the relationship among individual and organizational factors on intention to fraud and job engagement. Specifically, this study investigates (i) the impact of individual factors (i.e. need, opportunity and personal characteristics), and organizational factors (i.e. compensation, justice, ethical work climate and coworker fraud and punishment), on intention to fraud, (ii) the impact of individual and organizational factors on job engagement (i.e. behavioral, cognitive and affective), (iii) the mediating role of intention to fraud in the relationship between individual and organizational factors and job engagement.

2. Literature Review

2.1. Individual Factors

In organizations many individual and organizational factors such as financial and social needs, opportunities, personal characteristics and habits lead to employees' fraud. For example, Moorthy et al., (2014) demonstrated organizational and individual factors in their study.

The literature points to a number of factors that motivate employees to fraud at the individual level. However, in recent years' scholars tend to follow 'Fraud Triangle' for conceptualizing fraud which is

developed by Cressey (1950). Fraud triangle includes opportunities, motives/incentives and rationalization as the factors of fraud as seen in Figure 1.

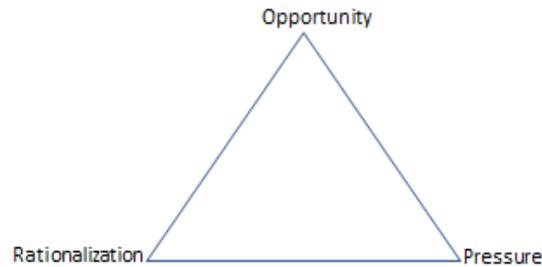


Figure 01. Fraud Triangle

Firstly, opportunity for fraud indicates gap in security checks, lack of supervision and is the first and most important element of fraud triangle. According to Greenberg & Barling (1996), people are greedy in nature, and every employee will steal if the opportunity is given. Researchers advocating this theory argue that this greediness will not turn into an anger unless there is an opportunity. Opportunity is created by an administration system or an ineffective control system that might leads to an individual's organizational crime. This is the weakness of the internal control system in accounting (Abdullah & Mansor, 2015). According to Comer, the opportunity is driven by four factors (Savona, Mignune, & Negro, 2002):

- The ability of criminals to find, or have access to, territory, accounts, assets and computer systems
- Ability to identify and use opportunities to fraud in the workplace
- Having the right time to plan and being able to successfully execute the trick
- Degree and seniority are, in general, the higher the seniority of an employee require less control.

Secondly, rationalization (moral justification) in fraud triangle demonstrates the attitude and thought process of the dishonest individual for justifying fraud. A dishonest employee, expressed in an attempt to justify the crime with thoughts and explanations, for example “I hate my manager”, “I do not steal, I work hard, I deserve it” (Wilson, 2004). In addition to the benefit-cost relationship, the physical character possessed by the worker also influences the worker's decision to commit a crime (Özeroğlu, 2014). Confidence or arrogance can affect the cost-benefit analysis of a fraudster.

Lastly, pressures; are expressed as conditions necessary in any environment in which the fraud flows (Wells, 2001). The pressures that are considered as the reason for pushing employees to fraud are financial and non-financial pressures. These are grouped into personal, business and external pressures (Hollow, 2014).

2.2. Organizational Factors

In the organizations, problems that lead employees to fraud are generally due to the inequality that real or perceived by employees. For this reason, when employees think that they are being paid unfairly, they can demonstrate unethical behaviors such as cheating to destroy or harm their business assets. Based

on exhaustive literature review, the following organizational factors are identified, namely, compensation, justice, ethical work climate and coworker fraud and punishment.

Firstly, inadequate and unequal payments, unnecessary salary cuts, delay in premiums or paying premiums create dissatisfaction with the job. Consistently as explained in the individual factors, inadequate payment justifies the fraud. As a result, the employee's efficiency and motivation falls down and employee wants to make irregularities at work.

Secondly, employees feel dissatisfied if they realize that their employers are not treating them fairly and this situation foster fraud among employees. Colquitt, Noe & Jackson, (2002) demonstrated that organizations that are known to be fair and supportive is not common absenteeism, workplace theft and violence.

Thirdly, ethical work climate indicates ethical procedures, policies and practices related to ethics (Victor & Cullen, 1988). In the literature there are numerous studies show the relationship among ethical workplace climate and organizational commitment, psychological welfare, job satisfaction and organizational citizenship behavior (Martin & Cullen, 2006). Hollinger & Davis (2006) argue that, when employees perceive unsupportive and displeased workplace climate they tend to express dishonesty activities.

Finally, in an organizational setting punishment for fraud impacts coworker fraud behavior and decisions about their own fraud behavior. According to Muir (1996), dismissing an employee for theft provide to both punishment of dishonest employee and avoid other employees from theft.

3. Hypotheses development and conceptual framework

3.1. Antecedents of intention to fraud

Almost nearly all cultures and business ethic discipline fraud has been treated as aspect of personality and social life. For example, Greenberg, and Barling (1996) argued that personality factors influences counterproductive behaviours including theft. According to scholars psychological factors, gaining prestige and uplifting in workplace foster fraud in organizations. Moreover, pressure such as high educational costs, high medical expenses, financial needs, personal debts and a desire to live well entails fraud in organizations. Additionally, employees' bad habit causes fraud in workplace for example, gambling, drug addiction and night life increases need of money and promote to fraud (Bozkurt, 2009). Besides pressures, individual unethical values foster intention to fraud. Therefore;

H1: There is a positive relationship among individual factors and intention to fraud.

Fraud continuous to be a challenge for organizations in the last two decades and scholars have been examined how organizational factors increases intention to fraud. For example, studies show that unfair treatment among co-workers, procedural and distributive injustice motivate employees to fraud intention. If employees perceive fairness in their organizations demonstrate positive attitudes like job satisfaction and commitment (Yadav & Yadav, 2016). Additionally, past studies and theories have noted that inequality in payment, unfair compensation, unfair incentive and imbalance between salary and cost of living motivate to fraud in organizations. Moreover, organizational ethical climate, employee's attitudes and values influences tendency to fraud. Employee who worked in an unethical climate felt that they had not done

anything wrong, through unethical climate employees tend to fraud and express more counterproductive work behaviours. Hence;

H2: There is a positive relationship among organizational factors and intention to fraud.

3.2. Intention to Fraud and Job Engagement

We argue that intention to fraud have positive effects on job engagement. Job engagement, which includes cognitive engagement (i.e. focusing, devoting and concentrating on the job), emotional engagement (i.e. feeling pride, exciting and enthusiastic in the job), and physical engagement (striving and working with intensity). This means that when employee work they use their hands, head and heart (Ashforth & Humphery, 1995). According to KPMG (2016) defrauder employee works approximately 5 years in the organization and usually does not prefer to take annual leave. Defraud employee usually comes work earlier and leave late, they prefer work individually and don't want to work with teams (Bozkurt, 2009). Bozkurt (2009) noted that defraud employee have curiosity their job and want to create new business models. Dishonest employee avoids to absentees and delegate their responsibility because they are concerned about revelation of the fraud. Hence;

H3: There is a positive relationship among intention to fraud and job engagement.

3.3. Mediating Effect of Intention to Fraud

We argue that intention to fraud mediates the relation between individual and organizational factors of fraud and job engagement. In particular, the existence of need, opportunity and pressure in individual level and injustice, compensation inequality and unethical climate in organizational level influences job engagement. If employee aware to negative work environment or applied harmful procedures, they justify intent to fraud and will be less likely to be devoted to work. Therefore;

H4a: Intention to fraud mediates the relationship among individual factors and job engagement.

H4b: Intention to fraud mediates the relationship among organizational factors and job engagement.

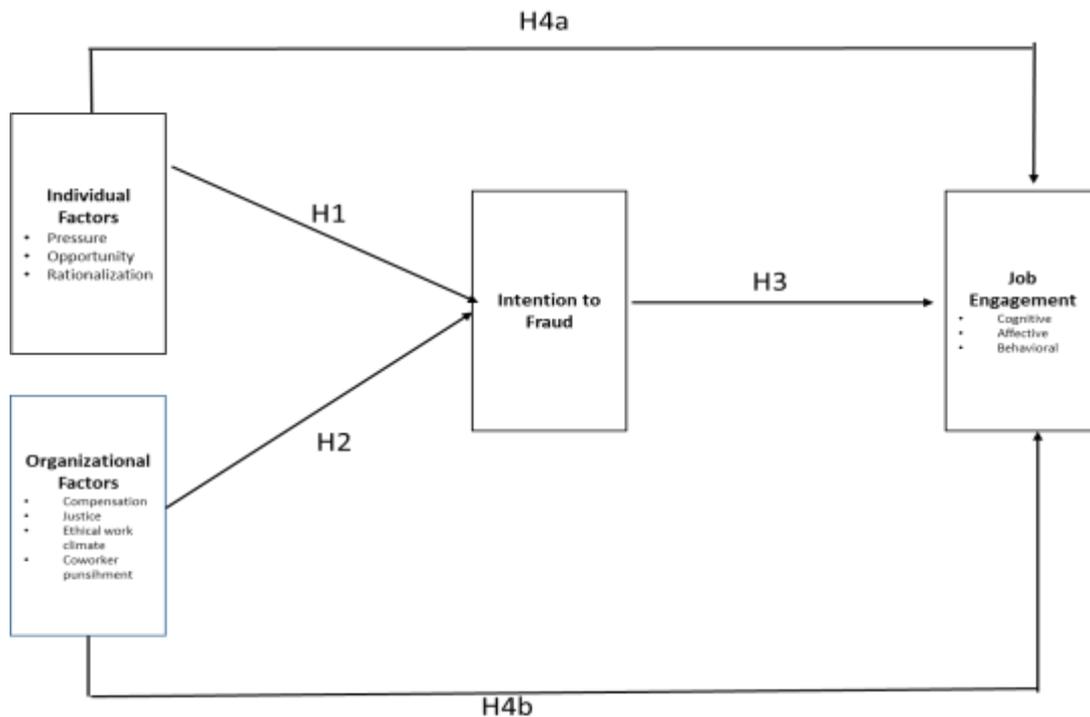


Figure 02. Research Model

4. Research Design

4.1. Measures

To test proposed hypotheses, we adopted multi item scales from earlier studies for the measurement of variables. In the study, 5 point Likert scale has been used ranging from, strongly disagree (1) to strongly agree (5) to measure variables. We also assessed demographic characteristics of participants.

For the individual and organizational factors of fraud we adapted from Moorthy, Seetharaman, Jaffar & Foong (2014). Individual factors were measured using 16 questions including three dimensions, namely rationalization, need and opportunity. Rationalization was measured with 5 items. An example item is ‘I think fraud only for a good purpose is acceptable’. Need was measured with 6 items. An example item is ‘I think increasing education expenses foster fraud in organizations’. Opportunity was measured with 5 items. An example item is ‘I think lack of security checks foster fraud in organizations’. Organizational factors was measured using 21 items including four dimensions, namely compensation, justice, ethical work climate and coworker fraud. Compensation was measured with 6 items. An example item is ‘I think inequity in payment foster fraud’. Justice was measured with 5 items. An example item is ‘I think unfair treatment foster fraud in organizations’. Unethical work climate was measured with 5 items. An example item is ‘I think unethical supervisor foster fraud in organizations’. Coworker fraud and punishment was measured with 5 items. An example item is ‘I think coworkers non organizational interests influences my behavior’. For the intention to fraud we modified the questions from Moorthy et al., (2014) was measured with 7 items. An example item is ‘I think bigger organization size foster fraud in organizations’. For the job engagement variable, we adopted Rich Lepine & Crawford (2010) job engagement scale, which includes

cognitive, behavioral and emotional engagement. A few example items are ‘I exert my full effort to my job’, ‘I feel positive about my job’ and ‘I pay a lot of attention to my job, at work’.

4.2. Sampling

To test the above hypotheses, one hundred and eighty three employee from various sectors have participated our survey. In the sample most of the participants had bachelor’s degree (64%) and 55% were men. The respondents held the following positions; work under supervisor (72%), manager (21%) and owner (7%).

5. Analysis and Results

5.1. Measure validity and reliability

After data collection we conducted a second order confirmatory factor analyses using the maximum likelihood estimation technique. Table 1 presents factor loadings and reliabilities for each variable. The Cronbach alpha scores range from .71 to .87 and composite reliability estimates range from .76 to .87. Beside average variance extracted (AVE) for each variable are well beyond the threshold as Fornell & Larcker (1981). Additionally, the results showed that the models adequately fit the data. The fit indexes were $\chi^2=1165.409$, $\chi^2/df=1.53$, (CFI)=.902, (IFI)=.903, (TLI)=.894 (RMSEA)=.054, and (PNFI)=.707

Table 01. Factor loadings and reliability scores

Variables	Factor Loadings	Cronbach’s α	CR	AVE
Individual Factors (IF)		.72	.81	.77
Need (N)	.565	.77		
N1	.581			
N2	.896			
N4	.747			
Opportunity(O)	.942	.84		
O1	.777			
O2	.837			
O3	.765			
O5	.680			
Rationalization (R)	.774	.65		
R1	.400			
R2	.846			
R3	.702			
Organizational Factors (OF)		.77	.83	.75
Compensation (C)	.859	.88		
C1	.765			
C3	.753			
C4	.801			
C5	.788			
C6	.795			
Justice (J).	.889	.80		
J1	.608			
J2	.883			
J3	.864			
Unethical work Climate (EC)	.506	.77		
EC2	.745			
EC3	.796			
EC5	.655			
Coworker fraud (CF)	.690	.79		
CF2	.684			
CF3	.717			
CF4	.845			

Intention to Fraud (IF)	.871	.87	.87	.76
IF1	.651			
IF4	.711			
IF5	.819			
IF6	.874			
IF7	.757			
Job engagement (JE)		.71	.76	.72
Emotional engagement (EE)	.598	.86		
EE11	.591			
EE4	.907			
EE5	.912			
EE6	.746			
Behavioural engagement (BE)	.605	.85		
BE1	.646			
BE2	.704			
BE5	.909			
BE6	.782			
Cognitive engagement (CE)	.927	.82		
CE1	.675			
CE2	.789			
CE3	.834			
CE5	.644			

CR: Composite Reliability, AVE: Average variance extracted , CFI: 902, TLI: 894, IFI: 903, PNFI: 707, χ^2 /df: 1.53, RMSA: 054

5.2. Hypothesis testing

To test our hypotheses, we used structural equation modelling using AMOS. Table 2 shows descriptive statistics of and correlations among variables. According to correlation analysis, all variables are correlated with each other as expected.

Table 02. Mean, Standard Deviation and Correlation Coefficients

	Mean	S.D	1	2	3	4
1.IF	3,28	.78	1			
2.OF	3.13	.78	.64**	1		
3.ITF	3.46	.93	.64**	.70**	1	
4. JE	3.80	.67	.21**	.23**	.30**	1

**Correlation is significant at the 0.01level SD: Standart Deviation

IF: Individual Factors, OF: Organizational Factors, ITS: Intention to Fraud, JE: Job Engagement

Table 03. Results of SEM analyses

Hypotheses	Standardized E	S.E	t-value
H1	.33**	.12	2.74
H2	.55***	.16	4.12
H3	.33**	.04	3.16
χ^2 :1165.479, χ^2 /df: 1.52, CFI: 901 TLI: 894, IFI: 903, PNFI: 709, RMSA: 054			

*p<0.05 ** p<0.01 ***p<0.001,

H1 predicted a positive relationship between individual factors and intention to fraud. Findings indicate that the relationship is significant ($\beta=.33$; $p<.01$). Therefore, H1 was supported. The relationship between organizational factors and intention to fraud was tested. The findings for H2 suggested that organizational factors have a positive and significant effect on intention to fraud. ($\beta= .55$; $p<.001$). The findings for H3, which predicted a positive relationship between intention to fraud and job engagement,

has been supported ($\beta = .33$; $p < .01$). To test the mediation effect (H4a/ H4b), we built three different SEM models by using AMOS. In the first model as shown in Table 3, we tested the direct relationship between individual/organizational factors and job engagement, in the second model we built the direct relationship between individual/organizational factors and intention to fraud and in the third model we added the mediating variable (intention to fraud) to the relationship between individual/organizational factors and job engagement.

Table 04. Results of mediator analyses

	Relationship	Model 1	Model 2	Model 3
H4a	IF → JE	.23**		.04
	IF → ITF		.78***	.78***
	ITF → JE			.29
				$\chi^2/df = 1.491$, CFI = .938 IFI = .939, TLI = .931 RMSEA = .052, PNFI = .747
H4b	OF → JE	.24**		.00
	OF → ITF		.82***	.82***
	ITF → JE			.33
				$\chi^2/df = 1.603$, CFI = .918 IFI = .919, TLI = .910 RMSEA = .058, PNFI = .736
* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$,				

Table 05. Results of hypotheses

Hypotheses	Path coefficient	Results
H1: IF → ITF	.33**	Supported
H2: OF → ITF	.55***	Supported
H3: ITF → JE	.33**	Supported
H4a: Mediating effect of intention to fraud among individual factors and job engagement Unsupported		
H4b: Mediating effect of intention to fraud among organizational factors and job engagement Unsupported		

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$ * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

6. Discussion and Implications

This study has showed the interrelations among individual, organizational factors, intention to fraud and job engagement. Specifically, this study first empirically showed that individual and organizational factors of fraud positively to related to the job engagement. Whereas prior studies found that fraud negative consequences such as workplace theft behaviour (Moorthy et al., 2014) we specifically showed a positive consequence.

Our results unexpectedly showed that intention to fraud did not mediate the relationship among job engagement and individual and organizational factors. It looks like when employee have opportunity, pressure or have rational reasons they engage their work. Similarly, organizational procedures and politics and ethical work climate affect job engagement directly.

From this research management can understand the individual and organizational factors that foster fraud. Management should focus on security checks, regular checking of accounts, frequent surprise audits and strong anonymous reporting system. Additionally, management should clarify the roles of supervisors. Supervisors demonstrate that they care their employee treatment, compensation and incentives. Next, management should enhance informal communication among employees. For example, they should learn individual needs such as medical expenses, education expenses or personal debts. Management should also prevent fraud by providing ethical work climate. Managers should be transparent and must have ethical values.

Some additional for future research can be done. Firstly, the moderating of internal control systems such as formal monitoring (Chen & Sandion, 2007) should be investigated. Because internal control systems include policies and practices and add value for employee fraud. Second, future studies should investigate the relationship between human resource practices and intention to fraud in organizations. Lastly, future studies may examine the role of leadership in organizational fraud. Specifically the role of authentic leadership should be investigated. Hence authentic leaders promote positive ethical climate and foster internalized moral perspective among followers.

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