

From Fraudsters to Scammers and Cyber-Villains, Tech-Savvy Criminals Are Out to Steal Your Money

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Today, more than ever before, criminals are out to steal from your business. However, today, criminals not only use organized shoplifting gangs and engage in armed robberies, but they now also use computers and the internet. Bernie Madoff and Sam Bankman-Fried have joined the lengthy list of well-known criminals before Charles Ponzi.

The Fraud Triangle (Cressey, 1973) is based upon Opportunity, Incentive, and Rationalization. The COVID-19 pandemic created a perfect storm of opportunity for would-be scammers. The federal government fueled opportunity with \$800 billion in COVID relief funding for the Paycheck Protection Program and up to \$400 billion for COVID unemployment relief.

According to the Association of Certified Fraud Examiners (ACFE) small businesses are often targeted as they tend to have fewer safeguards in place to prevent fraud. The ACFE reports that the average loss for a small business fraud is \$100,000 and an average of five percent of annual revenue.

In this paper, the authors provide an overview of current fraud activities and a study of the Traits of Sympathy survey to help examine whether a relationship exists between one's rationalization and sympathy in their decision to commit fraud in the pre-fraud state. We present research findings and offer recommendations.

Keywords: financial crime, fraud, cyber-criminals, cryptocurrency, COVID fraud

INTRODUCTION

The Opportunity of a Lifetime

According to the federal official in charge of COVID relief, the government structured the Payroll Protection Program and other COVID relief programs so that they were “an invitation” to fraudsters. Experts consider this theft to be as much as \$80 billion — or about 10 percent — of the \$800 billion handed out in a Covid relief plan known as the Paycheck Protection Program, or PPP. That’s in addition to the \$90 billion to \$400 billion believed to have been stolen from the \$900 billion Covid unemployment relief

program — at least half taken by international fraudsters — and another \$80 billion potentially stolen from a separate Covid disaster relief program.

Justice Department Inspector General Michael Horowitz, who oversees Covid relief spending, told “NBC Nightly News” anchor Lester Holt in an exclusive interview that the government designed Covid relief programs to make them ripe for plunder. The criminal methodology varied depending on the program. Both individual criminals and organized crime gangs used stolen identities to swindle Covid unemployment relief by claiming jobless benefits from state workforce agencies disbursing federal funds. According to Horowitz, each stolen identity could be valued at up to \$30,000 in benefits.

But theft through the Paycheck Protection Program (PPP) worked differently — and could be far more lucrative. The PPP program permitted financial institutions and banks to provide government-funded loans to businesses. These PPP loans would be forgiven on the condition the companies used the loan money for business expenses. Nearly ten million such loans have already been forgiven. Records show that most of these loans that turned into grants were for millions of dollars.

Economic Injury Disaster Loans are another SBA program designed to assist small business owners when a disaster occurs. The inspector general of the Small Business Administration (SBA) has already identified \$78.1 billion in potentially fraudulent loans, although the Secret Service estimates there are \$100 billion. The Pandemic Response Accountability Committee is retaining data scientists using artificial intelligence to analyze 150 million records in search of fraud patterns. In one instance, they found the same phone number for a Houston gas station used on 150 loan applications. The committee then sends these leads to federal agents who follow up investigating.

Congressional investigators report investigating several lenders and other service providers which processed \$4.5 billion worth of loan applications and boasted that a small business could get loan approval in five minutes. Other government agencies are also actively involved in investigating and prosecuting Covid-related fraud.

According to the Secret Service, the agency has confiscated more than \$1.2 billion while investigating unemployment insurance and loan frauds. By collaborating with financial partners and state governments to reverse financial transactions, they have also returned more than \$2.3 billion of funds obtained fraudulently. The Secret Service also reports more than nine hundred active criminal investigations around pandemic fraud. The Secret Service investigation includes cases in all fifty states, and so far, one hundred persons have been arrested.

Last week the Justice Department reported that its fraud division had already prosecuted more than 150 defendants in ninety-five criminal cases. They also seized \$75 million in cash proceeds fraudulently obtained through the Paycheck Protection Program and various real estate property and expensive luxury goods purchased with the fraudulently obtained funds.

Stealing Money From the Cloud

Financial cryptocurrency fraud is one of the newer and fastest-growing areas of financial fraud. Between October 2020 and March 2021, the Federal Trade Commission (FTC) received 7,000 crypto theft reports of, with a combined value of more than \$80 million. This represents a 1200% increase in the number of cases and a 1,000% increase in the amount of cash compared to the same period the previous year (Tepper & Curry, 2022). In 2016, Americans reported 340 Bitcoin crimes. More recently, in 2020, Americans reported 82,135 cryptocurrency crimes involving Bitcoin, Ethereum, and other digital currencies--- an increase of 24,000%!

Bitcoin fraud differs from other types of fraud in that the strengths of cryptocurrency are curved back against the victims. “Bitcoin-related scams track with other criminal exploits online until you try to recover your assets,” according to cybersecurity expert Adam Levin. “Cryptocurrency is designed to be hard to track and even more difficult to recapture. Once transferred, it’s gone, with a few very high-level exceptions.” (Tepper & Curry, 2022).

The United States is not the only target in this high-stakes fraud. Law enforcement detected similar crime patterns elsewhere around the world. For example, in 2020, Australians reported 9,689 crypto crimes

compared to none reported in 2016. Last year (2020), in the United Kingdom, victims reported 8,801 crypto-related crimes, a substantial increase from 704 in 2016.

Sam Bankman-Fried was one of the wealthiest people in cryptocurrency, thanks to his FTX exchange and Alameda Research trading firm, before his financial empire came crashing down in November 2022. By early 2022, investors placed the value of FTX and its U.S. operations at \$40 billion. Most of his wealth, estimated at \$26.5 billion, was based upon his (half) ownership of FTX and a share of FTT tokens.

Bankman-Fried, the son of Stanford law professors, graduated from the Massachusetts Institute of Technology and then worked for the prestigious trading firm Jane Street Capital. Roomy Khan, a Forbes magazine contributing writer, referred to Bankman-Fried as “The New Face of Fraud- Marquee Education and Privileged Access” (*Forbes*, February 6, 2023). Now,

Sam Bankman-Fried, CEO of FTX, is accused of swindling investors of \$8 billion. In another example of crypto fraud, Homero Joshua Garza’s virtual currency fraud Pay Coin victims lost more than \$9 million (Cryptocurrency Fraudster Sentenced, February 11, 2019).

DISCUSSION

Fraud is an inherent risk in any organization. Fraud can impact an establishment regardless of the size, type, or life cycle. Therefore, fraud is not discriminatory and can allow small, medium, large, public, private, for-profit, not-for-profit, newly formed, or mature establishments to become victims of fraud. Fraud, in one form, is in the news daily (Kreuter, 2017). Relatedly, anti-professionals see an increase in the number of frauds committed and exposed during times of economic distress such as the 2008 recession in the United States, and, therefore, anticipate the same with the current 2020 Global Coronavirus Pandemic (Dorris, 2020; Ross & Armstrong, 2016).

According to the Association of Certified Fraud Examiners’ (ACFE) Report to the Nations (2020), based on their 2019 Global Fraud Survey results, business establishments lose about five percent of their revenues to fraud each year - exceeding \$4.5 trillion worldwide. While no organization is immune to fraud, but smaller establishments often have an increased risk and greater impact when fraud occurs, given their size and limited resources available to combat it. Small businesses, those with fewer than one hundred employees, consistently rank highest in fraud frequency (ACFE, 2016).

Fraud originates at the individual level (Parker et al., 2020). Fraud is the outcome of an intricate combination of circumstance and human motivation, with human behavior being the ultimate element in deciding to partake in the act (Price-Waterhouse Coopers, 2018). Different from unintentional errors, fraud is a form of deception that can be committed against an organization (e.g., employee fraud) or committed on behalf of an organization (e.g., Financial Statement Fraud) (Albrecht et al., 2016).

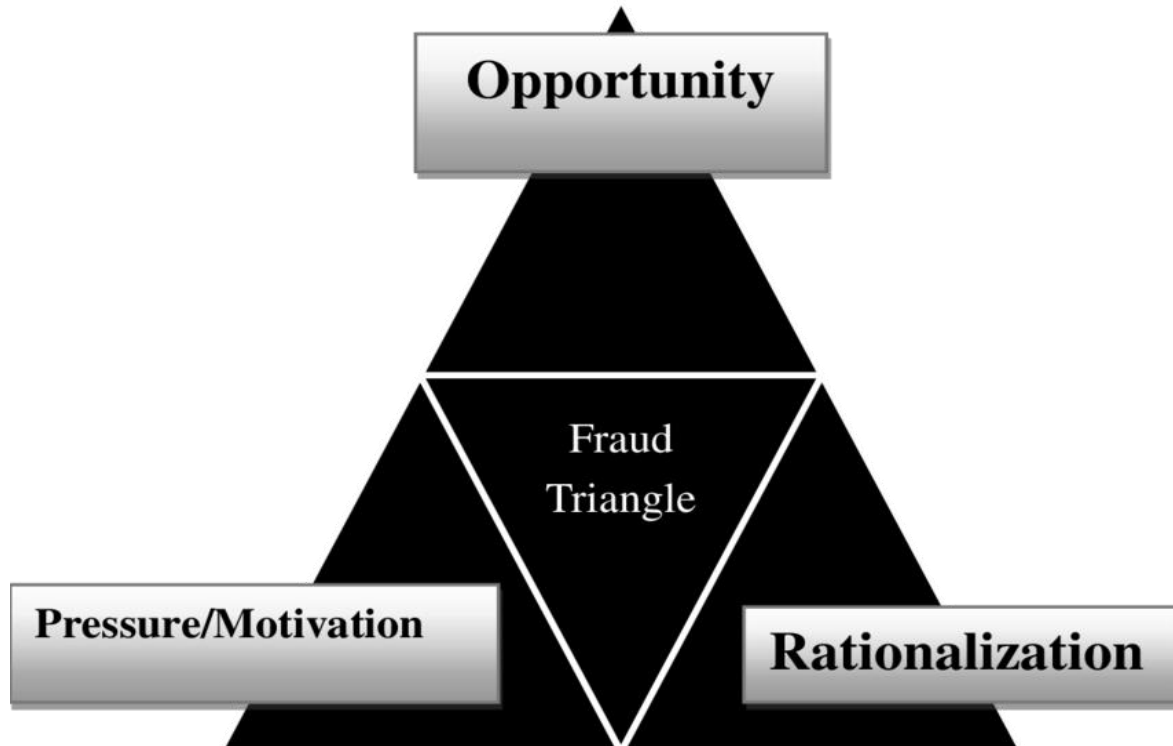
There are many distinct types of fraud and just as many ways to commit it. However, regardless of the type and method, fraud negatively impacts every organization it infiltrates. In addition to monetary losses, fraud impacts other areas, including employee morale, retention, and business reputation and relations (Crumbley et al., 2013).

Cressey’s Fraud Triangle Theory (FT, see Figure 1) depicted three elements that must be present for fraud to be committed. These elements included opportunity, pressure, and rationalization (See Figure 1). Responsibility for the opportunity element lies solely with the establishment (Kramer, 2015) in ensuring sufficient internal controls are in place to avoid giving individuals the opportunity to commit fraud. While organizations have no control over the rationalization element, they may share responsibility for the pressure element (Peters & Maniam, 2016), depending upon the circumstances surrounding the fraud.

A multitude of studies have been conducted regarding the pressure (motivating) element, and circumstances enabling fraud to occur in organizations, (Albrecht et al., 2015; Fitri et al., 2019; Kirsch, 2018; Kramer, 2015; Peters & Maniam, 2016), fraudster characteristics (Bonny et al., 2015; Cant et al., 2013; Kennedy et al., 2016; Peters & Maniam, 2016; Schuchter & Levi, 2016), and the impact fraud can have on an entity and its related stakeholders et al., 2017; Peters & Maniam, 2016; Trompeter et al., 2014). Due to the detrimental impact fraud can have on organizations, individuals, and society, in general, in both monetary and non-monetary aspects, more research is needed based on the different elements that occur in

the pre-fraud state, which is the time before the fraud occurs. This is the pre-violation state when the individual contemplates committing fraud while considering the associated risks and benefits.

FIGURE 1



Source: Cressey, D. R. (1973). "Other people's money: A study in the social psychology of embezzlement." ("Other People's Money: A Study in the Social Psychology of Embezzlement ...") The Free Press

This distinction is important because the focus should be on proactive measures to stop fraud from occurring rather than reactive measures after the fraud has occurred. The more we can learn about what occurs in the pre-fraud state, the better prepared organizations and practitioners can implement measures to stop the fraud. Researchers have examined the role of corporate ethics in the pre-fraud state (Mackevicius & Giriunas, 2013; Mugellin et al., 2017; Peters & Maniam, 2016; Trompeter et al., 2014), offender characteristics, including age and gender differences (Bonny et al., 2015; Cant et al., 2013; Kennedy, 2016b; Mackevicius & Giriunas, 2013; Omar et al., 2016; Schuchter & Levi, 2016), and the behavioral warning signs offenders have before committing the act (Klein, 2015). For instance, Bonny et al. (2015) examined the gender characteristics of occupational fraud in various industries (banking, retail, manufacturing, telecommunications, and transportation logistics). The authors noted females (2.5 to 1) in the banking industry were discovered to have committed more frequent frauds with smaller monetary losses, while males (4 to 1) committed longer durational frauds, which unsurprisingly resulted in larger monetary losses.

While there were no notable differences in offender genders in the retail and transportation logistics industry, Bonny et al. discovered in the manufacturing and telecommunications industries that male offenders significantly outnumbered females, which the authors noted was because these tend to be male-dominated. Prior research showed that rationalizations for committing fraud included entitlement due to being underpaid, unacceptable working conditions or hours, unawareness that the behavior was wrong, or rationalizing that the money taken was just a loan (Kramer, 2015).

Rationalization has also been found to have a partial mediating effect on the acceptance of fraud when viewed as a justification mechanism in the unfairness and inequity perception and attitude toward fraud (Zourrig & Park, 2019) and a significant impact on triggering fraudulent behavior among individuals

serving prison time for committing fraud (Syofyan et al., 2019). An individual's four rationalization processes have been revealed to be a motivating factor in whistleblowing intentions with the decision on whether to report or not report the wrongdoings based on whether doing so would help those victimized by the wrongdoings (Latan et al., 2019). In a study of public procurement fraud in Indonesia, negative affect was found to mediate the relationship between fraud behavior and rationalization as individuals with high pressure and high opportunity to commit fraud experienced higher negative affect and engaged in rationalization, especially the 'displace responsibility' category of rationalization to commit fraud (Rustiarini et al., 2019). An individual's ability to rationalize their behavior in the pre-fraud state is concerning.

According to Wells (2018), given an opportunity, an estimated 80 percent of people would commit fraud. Therefore, if a human element is present, there will always be a risk of fraud. Thus, there is an increased need to expand fraud awareness for practitioners, organizations, and researchers alike. For the more known about the root causes of fraud, especially in the pre-fraud state, the better-prepared establishments can combat fraud. Trompeter et al. (2014) maintained that fraud awareness can be brought about by further understanding the elements that help establish the foundations for fraud. With further insights into the fraud phenomenon, fraud prevention and detection controls can be implemented to help organizations reduce the risk of fraud infiltrating their establishments (Trompeter et al., 2014).

However, to implement effective prevention and detection controls, professionals must understand why and how perpetrators commit fraud (Ozili, 2015). Still, much about why and how individuals decide to act unethically or fraudulently remains a mystery (Harrison et al., 2018). 5 While there have been multiple studies regarding distinct aspects of fraud, the rationalization element is still the least understood and the least researched (Trompeter et al., 2014). The rationalization element focuses on the behavioral aspects associated with one's propensity to commit unethical acts and is the most overlooked aspect (Parker et al., 2020).

Existing literature offers little knowledge about whether an individual's ability to rationalize committing fraud is related to their level of sympathy towards others. Therefore, this study aims to further examine the rationalization element of the FT Theory in the pre-fraud state to determine whether an individual's level of sympathy impacts their ability to rationalize committing fraud. Statement of the Problem The problem to be addressed through this study was fraud's epidemic status in organizations around the world (Price-Waterhouse Coopers (2018) to determine whether a relationship exists between an individual's level of sympathy towards others (Lee, 2009; Wall, 2015), and their rationalization ability with their behavioral intentions to partake in committing fraudulent acts in the pre-fraud state (Kramer, 2015; Nugrapha, & Susanto, 2018; Peters & Maniam, 2016; Trompeter et al., 2014).

Fraud is costly in both monetary and non-monetary aspects (ACFE, 2020; Crumbley et al., 2013). Given a perceived opportunity and pressure, 80% of people will rationalize committing fraud (Wells, 2018) in what is considered the pre-fraud state (Trompeter et al., 2014). Organizations control the opportunity element, while the pressure and rationalization elements originate with the individual contemplating fraud (Kramer, 2015). The rationalization element is the least understood and the least researched (Trompeter et al., 2014). Why and how people act unethically remains a mystery (Harrison et al., 2018). 6 The existing literature offered little knowledge of whether one's level of sympathy impacts their ability to rationalize committing fraud.

Due to the detrimental impact fraud can have on organizations, the further understanding was needed concerning whether sympathy (Lee, 2009; Wall, 2015) impacts the rationalization element in one's decision to commit fraud (Kramer, 2015; Nugrapha, & Susanto, 2018; Peters & Maniam, 2016; Trompeter et al., 2014). In understanding who is more likely to rationalize fraud, the attention can be turned to internal and external forces facilitating the rationalization (Schnatterly et al., 2018). Without this information, organizations could not effectively assess fraud risk nor identify the proper fraud prevention and detection measures to reduce the risk. Using Harrison's (2018) fraud scenario survey in conjunction with Lee's (2009) Traits of Sympathy survey, the relationship, if any, between one's traits of sympathy and their ability to rationalize committing fraud was examined.

This quantitative study aimed to examine whether there is a relationship between one's traits of sympathy and rationalization ability with their behavioral intentions to commit fraudulent acts in the pre-fraud state, and whether interactions exist between gender and age, and one's rationalization and traits of sympathy. By better understanding whether such a relationship or interaction exists, organizations can better focus on implementing fraud prevention and detection controls (Trompeter et al., 2014). A cross-sectional, comparative research design was used to examine the independent variables – level of sympathy and rationalization ability, and their effect on the study's dependent variable – the participants' behavioral intentions to commit fraud. Cressey's 1973 Classic FT Theory explains the elements involved in the pre-fraud state and was used as the guiding theory behind Murphy and Dacin's 7 (2011) Psychological Pathways to Fraud Model in using Harrison's (2018) fraud scenario survey and Lee's (2009) Traits of Sympathy survey to help examine whether a relationship exists between one's rationalization and sympathy in their decision to commit fraud in the pre-fraud state.

Using a convenience sampling method, this study focused on undergraduate and graduate students enrolled at a regional university in the South. According to the G*Power 3 software (2020), the sample size needed to detect a medium effect size of $r = 0.3$ (Coffey, 2010) at the research standard alpha level of .05 and power level of .80 (Piasta, & Justice, 2010) for a two-way MANOVA and Linear Multiple Regression was 36 participants. The G*Power 3 analysis for these statistical tests is shown in Figure 1. Both Harrison's (2018) fraud scenario survey and Lee's (2009) Traits of Sympathy survey were given to the students to obtain age and gender information and to assess their traits of sympathy and rationalization ability in making their decision to commit fraud. The IBM Statistical Package for the Social Sciences (SPSS) software, version 27, was utilized to analyze the data collected in the study.

At this stage in the research, the goal was to determine if one's level of sympathy impacts their rationalization ability in deciding to partake in fraud. Conceptual Framework Murphy and Dacin's (2011) Psychological Pathways to Fraud Model based on Donald Cressey's 1973 Classic FT Theory was used as the conceptual framework for this study. The model depicts that if an individual is not already predisposed to committing fraud, once a perceived opportunity and a perceived pressure are believed to exist, the individual will begin the rationalization process in deciding to commit or not commit the act (Murphy & Dacin, 2011).

The Classic FT theory illustrates three essential elements of fraud: opportunity, pressure, and rationalization, all of which must be present for an individual to be able to commit fraud. However, the three elements must only be perceived as real for an individual to consider committing a fraudulent act (Albrecht et al., 2015). The perceived notion of opportunity + pressure + rationalization = an increased risk for fraud. Hence, it was reasonable to presume that if just one element is eliminated from the equation, the risk for fraud should decline considerably.

The FT Theory elements of opportunity, pressure, and rationalization are factors in an individual's decision to participate in committing fraudulent acts. As mentioned, these elements only need to be perceived as real for a person to consider committing the activity (Albrecht et al., 2015). This perception of realness differs for everyone, as a perceived pressure significant enough for one individual to commit fraud might not be significant enough for another to do the same (Kirsch, 2018). Control of the opportunity element lies solely with the organization, as absent an opportunity, the fraud cannot be committed (Kramer, 2015). While the opportunity element lies solely with an establishment, the element can be hard to eliminate, especially for small businesses with limited monetary and personnel resources. The pressure element is the triggering factor that initiates an individual to consider committing fraudulent acts (Fitri et al., 2019). Depending upon the circumstances, control of the pressure element can be shared by the organization and the individual contemplating committing fraud (Peters & Maniam, 2016). Establishments can help reduce pressure by paying their employees' fair wages, providing decent medical benefits, and providing safe and good working conditions (Kramer, 2015). While the opportunity element lies solely with the organization, and the pressure element can often be shared by both the organization and an individual, the rationalization element lies solely with the individual as the ability to rationalize the decision to commit fraud is unseen, and thus, unobservable behavior.

Rationalization Element

Rationalization is the process in which a fraudster attempts to justify his or her fraudulent behavior (Murphy & Free, 2016) by making excuses for the behavior (Fitri et al., 2019). As an estimated 80 percent of people would commit fraud, given an opportunity (Wells, 2018), likely, even the most honest individual can easily rationalize partaking in fraud, given a perceived opportunity and pressure. If an individual is not already predisposed to committing fraud, once this perceived opportunity and pressure elements are believed to exist, the individual begins the rationalization process for committing the act (Murphy & Dacin, 2011; Peters & Manian, 2016).

The methodology proposed for this study was a quantitative design. A quantitative design was applicable to this study in allowing for the independent variables (i.e., age and gender) to be quantifiably measured (Mertens, 2015). To help address the research questions and evaluate their corresponding hypotheses, a cross-sectional, comparative research design was used. The cross-sectional, comparative design allowed for comparisons to be made between groups, and to measure whether relationships exist between two or more variables (Coughlan et al., 2007). Thus, it was beneficial in examining whether a relationship was present between one's traits of sympathy and their rationalization ability with their behavioral intentions to partake in committing fraud.

The rationalization element was operationalized as the psychological thought process enabling an individual to behave immorally or dishonestly in certain contextual situations (Harrison et al., 2018). As the decision to commit fraud depends upon the situation, this research used Harrison's (2018) fraud scenario survey, which had been used to examine fraud concerning media capabilities to assess undergraduate and graduate students' ability to rationalize committing fraud. Using the situational fraud scenario, the survey helped determine the respondent's level of agreeableness on a seven-point Likert scale to rationalize measurement items with their behavioral intentions to commit fraud. Additionally, Lee's (2009) Traits of Sympathy survey was also used to assess the respondent's level of agreeableness on a seven-point Likert scale to sympathy measurement items. The surveys were given to undergraduate and graduate students at a regional university in the South. They were used to collect data that was nominal (i.e., gender), ordinal (i.e., age), and interval as the assumption was made that there are equal and fixed intervals between the seven levels of agreeableness.

In conducting this study, the aspiration was to examine whether a relationship was present between the rationalization element and traits of sympathy with one's behavioral intention to commit fraud. Additionally, age and gender effects on these variables were examined. Data collected in quantitative studies can be statistically analyzed using descriptive, correlational, and inferential techniques. Through this statistical analysis, the data collected are interpreted and reported, thereby allowing conclusions to be drawn and decisions made on whether to accept or reject the study's null hypotheses. Descriptive statistics were used to report the mean, median, mode, and standard deviation of the student's age and gender. Inferential statistics using a two-way multivariate analysis of variance (two-way MANOVA) and Multiple

SUMMARY & CONCLUSION

The problem to be addressed through this study was fraud's epidemic status in organizations around the world (PwC, 2018), as much about the process individuals use to rationalize acting unethically or fraudulently remains a mystery (Harrison et al., 2018). With a perceived opportunity and pressure, an estimated 80% of people will rationalize committing fraud (Wells, 2018) in what is considered the pre-fraud state (Trompeter et al., 2014). Fraud is costly in monetary and non-monetary aspects (ACFE, 2020; Crumbley et al., 2013). Fraud can harm organizations, impacting all stakeholders' lives, including employees, suppliers, lenders, and investors. Thus, fraud is too great to simply ignore (PwC, 2018). In choosing to commit fraud (Murphy and Dacin, 2011), the rationalization process helps an individual justify unethical, fraudulent behavior before or after the behavior occurs. The process helps them cope with guilt, remorse, or discomfort while maintaining their moral principles (Mulder & van Dijk, 2020). However, rationalization is unseen and, thus, unobservable behavior. Hence, the rationalization element has remained the FT theory's least understood and the least researched element (Trompeter et al., 2014).

Prior research suggested to increase further understanding of the elements that help establish the foundations for fraud to occur (Trompeter et al., 2014), it was necessary to view the rationalization element of the FT theory (Kramer, 2015; Nugrapha, & Susanto, 2018; Peters & Maniam, 2016; Trompeter et al., 2014) concerning the psychology of the potential fraudster considering personality traits such as the ability to sympathize with others (Lee, 2009; Wall, 2015). Therefore, the purpose of this quantitative study was to examine whether there was a relationship between one's traits of sympathy and rationalization ability with their behavioral intentions to commit fraudulent acts in the pre-fraud state and whether interaction exists between gender, age, and one's rationalization and traits of sympathy. Understanding who is more likely to rationalize fraud can focus on internal and external forces facilitating the rationalization (Schnatterly et al., 2018). A thorough review of the prior literature was conducted and synthesized in preparing for this study. Researchers have extensively studied multiple aspects of fraud. Schuchter & Levi, (2016), and the behavioral warning signs offenders signal before committing the act (Klein, 2015). As rationalization is unseen and, thus, unobservable behavior, fewer studies have addressed the rationalization element, especially in the pre-fraud state. Studies on the rationalization element of the FT theory have been limited to the rationalizations for committing fraud (Kramer, 2015), for the acceptance of fraud (Zourrig & Park, 2019), as a motivating factor in whistleblowing intentions (Latan et al., 2019), and the effect on individuals with high pressure and high opportunity to commit fraud (Rustiarini et al., 2019).

This research gap allowed this study to further understand the rationalization element in the pre-fraud state. Murphy and Dacin's (2011) Psychological Pathways to Fraud Model, based on the FT theory elements (Cressey, 1957), was the conceptual framework for this study. The FT theory depicts three essential elements of fraud: Opportunity, pressure, and rationalization, all of which must be present for an individual to be able to commit fraud. The Pathways model depicts if an individual is not already predisposed to committing fraud (e.g., psychopaths who lack the need to rationalize), once a perceived opportunity and a perceived pressure are believed to exist, the individual will begin the rationalization process in deciding to commit or not commit the act (Murphy & Dacin, 2011). The Pathways model and the FT theory were the frameworks behind the decision to use Harrison's (2018) fraud scenario survey and Lee's (2009) Traits of Sympathy survey to help examine whether a relationship exists between one's rationalization and sympathy in their decision to commit fraud in the pre-fraud state. The study used a cross-sectional, comparative research design to examine the independent variables – the level of sympathy and rationalization ability, and their effect on the study's dependent variable – the participants' behavioral intentions to commit fraud. This design allowed for comparisons between groups and to measure whether relationships exist between two or more variables (Coughlan et al., 2007). Thus, it was beneficial to explore whether a relationship exists between the study's participants' rationalization ability and level of sympathy with their behavioral intent to commit fraud.

Implications

Fraud is situational-based and is a form of deception, different from unintentional errors or lapses in judgment (Albrecht et al., 2015). Organizations must acknowledge that some people are prone to committing fraud. In contrast, others may have undeveloped or marginal ethical attitudes that place them at an increased risk of succumbing to personal or organizational pressure, thereby heightening their ability to rationalize committing fraud (Lakatos & Shoulders, 2020). Individuals with a keen sense of empathy and equity may be more susceptible to committing fraud when feelings of guilt influence dishonesty induced by inequity (Wong & Carducci, 2016).

When faced with pressures, most people do not immediately turn to fraud as their first choice for resolving these pressures (Kirsch, 2018). Instead, they will look for an opportunity and then begin to start rationalize committing the fraud if they believe the act is their only option in solving their problems (Kirsch, 2018). People rationalize committing fraud for distinct reasons.

Common rationalizations include entitlement due to being underpaid, unacceptable working conditions or hours, unawareness that the behavior was wrong, or rationalizing the money taken was just a loan (Kramer, 2015). In any given situation, ethical decision-making is influenced by multiple variables – both internal (psychological) and external (social) (Baker, 2017). Emotions, either at an unconscious or

conscious level, can influence how individuals respond to an ethical dilemma (Baker, 2017). Sympathy is naturally aroused (Gregory, 2015), and like other emotions, it can be activated through observing another's pain or joy (Baker, 2017). Sympathy, comprised of emotional, cognitive, and behavioral tendencies, often originates when another is in distress (König et al., 2020), and thus, this and other emotions are not as likely to arise if there is an insufficient degree of proximity (Gregory, 2015). Most people transcend themselves to overcome their selfishness and behave ethically through traits such as empathy and compassion (Pohling et al., 2016). For this cross-sectional, comparative, quantitative study, the findings contributed to the pre-existing literature presented in Chapter 2.

This literature indicated a need for increased fraud awareness of the pre-fraud state's rationalization element to answer whether a relationship was present between an individual's ability to rationalize fraud and their traits of sympathy towards others with their overall intention to commit fraudulent acts. We discuss the implications of the study's findings below the research questions. RQ1. The results of the Multiple Linear Regression model are consistent with prior literature findings regarding emotions impacting decision-making (Baker, 2017; Gregory, 2015; König et al., 2020; Pohling et al., 2016) in that the model indicated sympathy as an emotion-influenced rationalization and the intention to commit fraud. While many of the respondents could rationalize committing the fraud, their level of sympathy towards others' feelings impacted their decision not to commit the fraudulent act outlined in the survey's scenario. Thus, the findings supported rejecting the null hypothesis, thus accepting the alternative hypothesis, revealing sympathy and rationalization statistically significantly predicted intention to commit fraud $F(2, 174) = 17.136, p < .0005$, with an adjusted $R^2 = 15.5\%$, (shown in Figures 22 and 23). RQ2. In examining interactions between gender and age on sympathy and rationalization, the results of the two-way MANOVA supported retaining the null hypothesis. Thus, rejecting the alternative hypothesis, revealing the interaction effect between gender and age on the combined dependent variables was not statistically significant. These results were inconsistent with prior literature. Prior studies have shown that females tend to allow emotions to impact their decisions more than do males in their daily lives (Trampe et al., 2015). They are less likely to justify unethical acts (Cory & Hernandez, 2014). These results are potentially due to the stereotype that females, by nature, are more sympathetic and caring than their male counterparts. The failure to find any interaction may be due to contributing factors such as the situational context of the fraud scenario given to the students. The scenario provided in Harrison's (2018) survey illustrated an example of interpersonal fraud where the student could sell a used computer online, communicate through email, and collect an additional \$100 if they misrepresented the computer's condition. The fact that the scene lacked an important level of emotional impact and the small amount of monetary gain from committing the fraud might not have been deemed worth the risk or effort.

Recommendations for Practice

Fraud does not discriminate. It can infiltrate all establishments regardless of type or size. Therefore, organizations cannot afford to become complacent to fraud risk and have an 'it will not happen to me' mindset.

Focusing on the timing of rationalization, pre-fraud (justification for committing the act) versus post-fraud (explanation for committing the act), is essential in preventing fraud from infiltrating an establishment. Preventing fraud requires deconstructing fraudsters and understanding their mindsets and attributes (Perri, 2011). Thus, identifying and understanding all the factors involved in a potential fraudster's ability to rationalize committing fraud is paramount to fraud prevention. The FT theory's rationalization element is the crucial link between one's mind and the fraud itself (Mintchik & Riley, 2019). The Psychological Pathways to Fraud model maintains that one's rationalization and thought process in deciding whether to commit fraud is extraordinarily complex (Murphy & Dacin, 2011). Evaluating fraudster personality characteristics with their rationalization thought process could help implement and strengthen fraud prevention strategies. These strategies would help reduce or eliminate the ability of people with high rationalization ability and low levels of sympathy towards others from taking advantage of an opportunity to commit fraud.

This study aimed at broadening the understanding of one's rationalization ability with their traits of sympathy in the pre-fraud state to expand the knowledge of the FT theory rationalization element concerning one's psychological process of rationalizing to commit fraud. Knowledge of the techniques and traits that allow potential fraudsters to rationalize their actions may be the missing piece of the fraud prevention puzzle that will also help establishments design and strengthen anti-fraud programs (Mintchik & Riley, 2019). As discussed previously, the tone at the top, ethical codes of conduct (implemented and followed), and effective internal controls are essential in deterring fraud. As the responsibility for the opportunity element of the FT theory lies solely with the establishment (Kramer, 2015), current anti-fraud programs focus on reducing this element, and absent the consideration of other contextual factors; they may not effectively discourage the behavior (Harrison, 2018). The findings support the extension of the rationalization element of the FT theory. They can provide additional motivation that may supersede the pressure element of the FT theory in certain situations. Using the knowledge obtained in this study, organizations can expand and improve their anti-fraud programs. Murphy and Dacin (2011) maintained the first process in rationalizing committing fraud is the awareness that the behavior is fraudulent. Through offering hypothetical situations in training programs, knowledge and awareness provide individuals with a resolution for resisting the FT theory's elements.

Foreknowledge and awareness of these elements provide the foundation to help individuals reduce their rationalization tendencies to commit fraud by increasing their ability to exercise counteractive control (Lakatos & Shoulders, 2020). Human resource departments and managers can create hypothetical training exercises. In-person and interactive presentation simulated learning modules allow for increased awareness of how emotional traits, such as sympathy, impact one's rationalization ability and intent to commit fraud, whether solo or colluding with others.

By implementing hypothetical scenarios in their ethical training programs, organizations expose their employees to potential opportunity, pressures, and rationalization situations, increase their awareness, and better equip them to make the right ethical choice rather than rationalizing committing fraud (Lakatos & Shoulders, 2020). These training programs, given to new employees during orientation and existing employees at annual evaluations, will help increase an individual's emotional intelligence in making them aware of the impact of committing the fraud on not only themselves but also others. Kakati and Goswami (2019) maintained that proactive measures are essential in the fight against fraud and insisted that organizations continue to develop new techniques and tests to assess their new employees and periodically assess current ones.

The authors further maintained that potential employees should not only be recruited and selected based on experience, qualification, and merit, but their ethics, morality, integrity, and other traits should also be examined through behavior analytics (Kakati & Goswami, 2019). Therefore, in addition to implementing hypothetical scenarios in their ethical training programs, establishments could examine sympathy and rationalization ability traits in different contextual situations alongside other personality tests in pre-employment screenings. Using personality tests could help provide supplemental information that is important in assessing an individual's propensity to behave unethically in different situations. Integrating personality assessments with formal training can help enhance fraud models and help ensure individuals with a high rationalization ability and low emotional intelligence are not placed in positions lacking effective internal control.

This study's results provide increased fraud awareness in furthering the understanding of the rationalization element of the FT theory as it relates to one's traits of sympathy and intentions to commit fraud in the pre-fraud state. With this information, fraud fighters can help reduce the likelihood of fraud infiltrating an establishment. Increased and continued awareness will allow for establishments to focus on being proactive instead of reactive to address and combat fraud. Recommendations for Future Research Fraud is costly both in monetary and non-monetary terms. Thus, every establishment's goal should be to attempt to decrease, if not eliminate, the occurrence of fraud.

The opportunity element lies solely with the organization (Kramer, 2015). Depending upon the circumstances, the organization and the individual (Peters & Maniam, 2016) can share control of the pressure element. However, the rationalization element lies solely with the individual and is more difficult

to ascertain, as it is an unseen/unobservable behavior. The rationalization element for this study was operationalized as the psychological thought process enabling an individual to behave immorally or dishonestly in certain contextual situations (Harrison et al., 2018). As the decision to commit fraud depends upon the situation, and sympathy is activated through observing another's pain or joy (Baker, 2017) with sufficient proximity (Gregory, 2015), a recommendation for future research is to add sympathy element to the scenario. For instance, given an opportunity, consider the impact sympathy would have on one's ability to rationalize adding a relative or close friend with a life-threatening illness and no medical insurance to a company-sponsored health plan even though the company did not employ the relative or friend. Recall that Harrison's (2018) fraud scenario provided a \$100 monetary incentive for those electing to misrepresent the computer's condition.

As prior research has shown, the motivation to commit fraud is directly proportionate to the amount of monetary reward (Ramamoorti et al., 2014; Murphy and Dacin, 2011). Another recommendation would be to increase the monetary gain in committing fraud. Would an increased monetary incentive outweigh any feelings of sympathy towards others in one's rationalization ability to commit fraud? To what extent does the strength of an individual's sympathy towards others impact their awareness of or propensity to commit fraud when coupled with increased personal pressure of motivating elements? Does helping themselves become more salient than the desire to think of others or the impact on others? Essentially, does their own need, the amount of monetary gain, supersede their sympathy towards others and thus, impacts their intention to commit fraud. Additionally, Harrison's (2018) scenario used in the study had no consequences for committing fraud. Thus, future research could consider whether consequences for committing the fraud would impact one's decision with or absent a sympathy element, and with or without an increase in monetary incentive.

In addition to modifying the fraud scenario, future research could be conducted in different educational settings, such as universities with religious affiliations both inside and outside the United States, to see if differences exist between the student populations. Increasing the sample size with more participants from different educational disciplines (outside the school of business) and a longitudinal study tracking students from first-year to senior year may also offer a broader perspective. Further, examining whether family upbringing (e.g., single-parent home, grandparents as guardians), diverse types of frauds, and diverse cultures impact one's rationalization ability and sympathy towards others with their intent to commit fraud is also of interest. For instance, future research could examine financial statement fraud, which typically requires collusion, to see if sympathy toward others increases one's motivation to participate in collusion fraud. In addition, past psychological research has identified three personality types which increase an individual's propensity to rationalize partaking in unethical behavior: Machiavellian, Narcissism, and Psychopathy (Parker et al., 2020).

Psychopaths lack emotional traits such as shame, sympathy, and guilt and, therefore, do not need to rationalize their behavior (Wong & Carducci, 2016). However, those with Machiavellian and Narcissism personality types use the rationalization process to justify their actions. Future research could examine the relationship between individuals with Machiavellian and Narcissism personality types and their sympathy toward others. Future research could also examine the impact that emotional intelligence (i.e., awareness of not only their feelings but also the feeling of others) regarding other emotional traits outside of sympathy, such as shame and guilt, to determine the impact on one's rationalization ability and intent to commit fraud. As discussed, the framework used in this study is useful for future research into the rationalization element and fraud prevention. Knowing the pathways that potential fraudsters use in making the decision to commit or not commit fraud is essential. Additionally, knowing the psychological traits that positively impact the intent to commit fraud is just as valuable as knowing the negative ones.

This research can be used to expand on the research to create a new fraud model to include psychological elements, behavior, and personality. For instance, I have developed a survey based on Murphy and Dacin's (2011) Psychological Pathways to Fraud Model, to further assess an individual's rationalization process in deciding to commit or not commit fraudulent acts. The survey incorporates a fraud scenario to examine an individual's thought process as they first determine whether the scenario is considered fraudulent behavior. If not, Murphy and Dacin's (2011) model states they will proceed with the

behavior. If they consider it fraudulent behavior, they will then consider whether the behavior is acceptable (e.g., given the corporate ethical culture), and conduct a cost/benefit analysis (Murphy & Dacin, 2011).

Further understanding of the rationalization element of the FT is essential in preventing frauds from being committed, detecting unknown frauds that are underway, and investigating those that are uncovered. Due to the many ways frauds are committed, researchers should conduct further studies of the pre-fraud state's rationalization element using a behavioral lens that should include personality traits outside of those covered in this and other former studies.

Given the higher incidence of fraudulent behavior, a wide area of research is needed on determining when conditions are ripe for such behavior to occur and what personality traits are more likely to indicate a propensity to engage in such behavior. Much still needs to be done to fully comprehend the inherent relationship between rationalization and intention to commit fraud and create frameworks and models that serve as a reliable and valid indication of the FT theory's rationalization leg.

Conclusions

Fraud is costly and warranted increased awareness due to its epidemic status (PwC, 2018) even before the 2020 COVID-19 Pandemic. As fraud historically occurs more during economic distress, the impact of the Pandemic on the world economy is certain to cause a 108 increase in the number of new frauds and uncover existing frauds (Dorris, 2020). Thus, this economic distress further warrants an increase in fraud awareness. This cross-sectional, comparative, quantitative study examined whether a relationship was present between rationalization (Kramer, 2015; Nugrapha, & Susanto, 2018; Peters & Maniam, 2016; Trompeter et al., 2014) and traits of sympathy (Lee, 2009; Wall, 2015) with one's behavioral intent to commit fraudulent acts in the pre-fraud state.

The target population was undergraduate and graduate business students at a regional university in the South. The sample consisted of 184 students enrolled and taking courses over three weeks – June 22, 2020, to July 13, 2020. Survey data were collected, de-identified, and analyzed. This study's results fit the conceptual framework, which was framed using Murphy and Dacin's (2011) Psychological Pathways to Fraud Model based on Donald Cressey's 1973 Classic FT theory.

This conceptual model illustrates that if an individual is not already predisposed to committing fraud, once a perceived opportunity and a perceived pressure are believed to exist, the individual will begin the rationalization process in deciding to commit or not commit the act (Murphy & Dacin, 2011). The framework supported the goal of obtaining further knowledge to increase fraud awareness with respect to the FT theory's rationalization element in the pre-fraud state. Using a behavioral/psychological lens, the study examined the rationalization element concerning traits of sympathy intending to commit fraud.

The results indicated that one's rationalization ability and traits of sympathy were significant factors in predicting one's intention to commit fraud. However, the results did not support any interaction between gender and age on their combined rationalization ability and sympathy traits. This work contributed to the argument that efforts to further understand the rationalization element in the pre-fraud state necessitate the exploration of the human psyche to increase knowledge of what remains hidden in the minds of potential fraudsters. The findings examined in this study are presented to assist in the fight against fraud. The fraud scenario used in the survey was interpersonal fraud being conducted in the online environment.

While the FT theory elements of opportunity, pressure, and rationalization must be present for any type of fraud to be committed, for other types of fraud to be considered or committed, individuals may require increased pressure and rationalization. All individuals have the propensity to rationalize their behavior, except for psychopaths who lack emotional traits such as shame, sympathy, and guilt and, therefore, do not need to rationalize their behavior (Wong & Carducci, 2016). Even though college-aged students were used as the sample for this study, and not all age groups (e.g., 60+), were well-represented, or represented at all, the results allow for transferability in the comparison of the socio-demographic characteristics and personality traits of the study's participants with a similar population (Banerjee & Chaudhury, 2010).

As the interpersonal fraud scenario given to the students was being conducted in the online domain, and the students were taking online courses, they possessed sufficient knowledge and experience of this domain to allow for generalizable and valid results. The same should be said of similar populations taking

courses online. Given Wells (2018) estimates 80 percent of individuals would commit fraud if given an opportunity; organizations cannot afford to become complacent to fraud risk and have an ‘it will not happen to me’ mindset. As efforts to minimize fraud occurrences have increased, so have the efforts of fraudsters finding new and ingenious ways to commit these acts. As the types of fraud and methods to commit fraud continue to evolve, so much is the knowledge of practitioners, organizations, and researchers alike. Thankfully, increased fraud awareness can help reduce the likelihood of fraud infiltrating an establishment. Now is the time for management to focus on the future and increase fraud awareness to better protect their business or organization from fraud. Practitioners, organizations, and researchers must arm themselves with knowledge of the theories and practices addressing this phenomenon, especially regarding insights into a fraudster’s behavior during the pre-fraud state. Increased and continued awareness will allow establishments to focus on being proactive instead of reactive to address and combat fraud.

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