THE EFFECTS OF ORGANIZATIONAL TRUST TO REDUCE EMPLOYEE FRAUD RISK IN ADVENTIST UNIVERSITY OF THE SOUTHERN ASIA PACIFIC DIVISION

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Abstract: This study aimed to examine the effects of *organizational trust (OT)* contributed to reduce *employee fraud risk (EFR)* in SDA tertiary school within the Southern Asia Pacific (SSD) operational region. EFR could be predicted by component behaviors of OT dimensions (*competence*, *openness*, *honesty, concern for employees*, *reliability, and identification)* as perceived to prevent and reduce fraudulent acts in relation to misappropriation of assets. The survey research design was employed in this study with convenience random sampling technique. The descriptive-correlational design and multiple regression analysis were used to determine the existing relationship among the variables and the predictors of EFR. The respondents were 407 regular full-time employees of four SDA universities: AIU, AUP, UNAI and UNKLAB. There were three elements must be present for employee to commit fraud base on fraud triangle theory. The findings revealed that "pressure" ranked first as a risk, followed by "opportunities" and "rationalizations." There was a negative and significant relationship between OT and EFR of the respondents' perception. Reliability, honesty, competence, dimensions could be predicted to reduce EFR. The results indicate the importance of well-structured organizational trust culture, effective internal controls against employee fraud risk regarding misappropriation of assets by employees.

Key words*:* OT, competence, openness, honesty, concern for employees, reliability, identification, EFR, pressure, opportunity, rationalization.

INTRODUCTION

Fraud, as a human endeavor, involves violation of trust, rationalization, etc. (Ramamoorti & Olsen, 2007). This shows that attention should not only be focused on finance functions, but also on the organization's internal control procedures in identifying the motives of the fraudster and the behavioral risk factors that may indicate fraud (Brown, 2009), and to what motivates people to commit fraud so they can better assess risk and assist employers (Wells, 2001). Therefore, this study was conducted taking into consideration the variables of OT behavior in working environment that lowers nonfinancial motives for engaging in frauds in relation to the causes of employee anti-fraud control from misappropriation assets in organization (Pickett, 2010).

With regards relationship between OT and EFR, Shockley-Zalabak, Morreale, and Hackman (2010) stated that ethical/legal abuse is one of the organizational measures for monitoring trust levels in organization. In addition, Thornton (2011), a leading Canadian accounting and advisory firm stated that trust within an organization can also create the potential for fraud, which in extreme cases can result in bankruptcy. The fact is that fraud is very often a function of trust, or more specifically, of the level of trust and corresponding controls that are assigned to an organization's various roles: CFO, accountant, manager, clerk, etc. So understanding who to trust (people) and how to trust (controls) is therefore a critical step in the development of any fraud prevention initiative. The recent approaches suggest that organizations have to place enough trust in their employees, and that the feeling of being more trusted makes employees more productive; but the flip side that organizations should consider is that employees who have been allocated high levels of trust are still quite capable of committing fraud. They are actually very well positioned to do it, and often do become perpetrators.

Considering this, Singleton and Singleton (2010) affirmed that people who lie, cheat and steal on the job are affected by personal variables: aptitudes/abilities; attitudes/preferences; personal needs/wants and value/beliefs; and organizational variables in terms of interpersonal trust. On the other hand, Hassan and Semerciöz (2010) mentioned that there is a positive relationship between trust in leader and task performance. They found that the relationship between trust in co-worker and task performance was greater; and trust allows the development of a more effective exchange relationship between the trustor and trustee, which facilitates high task performance and positive behaviors on the job. This task performance can be defined as the effectiveness with which job incumbents perform activities that contribute to the organization's technical core either directly by implementing a part of its technological process, or indirectly by providing it with needed material or service. In other words, this relationship between trust or distrust and task performance level can be performed in positive and negative level performance of employee behavior as fraudulent acts in organization.

Shockley-Zalabak, Ellis, and Winograd as cited in Tanner (2007) stated that aside from competence and rapport, integrity is included as one variable of OT. Integrity serves as certain communication behaviors such as honesty and openness. It also involves honesty, commitment, adherence to a set of principles, acting fairly and honoring agreements, and practicing an appropriate level of disclosure. This OT provides the basis for employee motivation, effective team-building, open communication, and employee retention. Unfortunately, there might be differences in attitudes between supervisors and non-supervisors about what would make communications seem good and what would contribute to the belief that top management listens to employees' concerns. This may lead to the conclusion that there is a disconnection among organizational members and among management and employees. This disconnection may lead to mistrust and the difficulty in attracting and retention of human talents. This is supported by Callaway (2006) who concluded that organization with higher level of mutual trust among organizational members and between management and employees may be able to maintain and sustain human talents in order to achieve business competitiveness. Lafleche, Elzinga and Seeto (2010) stressed that since trust within organization is clearly necessary for employee satisfaction, efficient business operations and resulting competitive advantages may also create the potential for fraud, which can result in bankruptcy.

Callaway (2006) stated that these issues of trust and employee fraud have taken on greater strategic importance in organization since the post-Enron scandal that affected organizational members between management and employees. Knowledge management, organizational performance and involvement may tend to close down. On the other hand, recent approaches suggest that the feeling of being more trusted makes employees more productive. However, the flip side that organizations should consider is that employees who have been allocated high levels of trust are still quite capable of committing fraud, are actually very well positioned to do it, and often do become perpetrators. As statistics suggest, seniority and experience-both of which, more often than not, indicate higher trust levels in the individual-actually result in increased fraud. If employees who have achieved higher levels of trust actually commit fraud more often, it follows that the notion of extending greater trust to employees in general must be tempered and qualified (Lafleche, Elzinga, & Seeto, 2010).

Thus, considering this, organizations and their employees have to make good efforts and judgments to build high-trust with others would be against fraud. Vasile (2004) suggested that owners, managers, and political figures within our society must take steps to create a culture of trust, honesty, and integrity within the business community. On these three variables, Shockley-Zalabak, Morreale, and Hackman (2010) found that OT has been associated with effective operation of an organization in relation to the employee's behavior of committing fraud. Since employees have expectations when they join an employer, although often unwritten they have beliefs about job security, benefits, concern for employee welfare, communication, and treatment from management that all contribute to trust expectation between employees and employers. When employees believe their employer is either overtly or marginally breaking the expectations, many, if not most, employees cease to make extra efforts to produce. Downsizing is a perfect example of an organizational action strongly impacting trust and breaking expectation. Downsizing often leaves behind a workforce that is demoralized, angry, and discouraged. More important for the long-term viability of the organizational survivors often are cautions, unwilling to make decision or take risks, and lacking in energy and commitment. When employees no longer trust their employers, even rewards such as pay raises or promotions will not easily restore trust. The worst result was affirmed by Schyns and Hansbrough (2010) that "corruption has a detrimental effect on faith and trust in business, institutions, and society in general. Corruption seriously damages system trust and thus endangers functioning of society in general." (p. 306)

Statement of the Problems

The main objective of this study was to examine the predictors of EFR that could be predicted by component behaviors of OT dimensions as perceived to reduce fraudulent acts in relation to misappropriation of assets. Specifically, this study attempted to answer the following questions:

1. What is the level of perceived organizational trust (OT) of the respondents in terms of competence, openness and honesty, concern, reliability and identification?
2. What is the level of employee fraud risk (EFR) as perceived by respondents in terms of pressures, opportunities and rationalizations?
3. Is there a significant relationship between the degree of Organizational Trust (OT) dimensions degree and the degree of employee fraud risk (EFR) factors as perceived by respondents?
4. What is the effect of Organizational Trust (OT) dimensions as predictors to reduce employee fraud risk (EFR) perceived by respondents?

RESEARCH METHODOLOGY

This study employed a survey research design (non-experimental research method), which was used to collect data since this study is quantitative in nature. The descriptive-correlational design was used to determine the existing relationship among the variables (Lodico, Spaulding, & Voegtle, 2010). To determine the best predictors among the variables on reducing EFR, the researcher used Stepwise Regression Analysis that focused on multiple coefficient of determination or *R* square (R^2) which measured the percentage of variation in the EFR factor that could be accounted among the variables of predictors and moderator. Organizational Trust (OT) was assigned as independent variables and EFR as the dependent variables that has been associated with effective operation of an organization in determining the second correlation. The moderator variables are current position, length of service in current position, and educational attainment.

The population in this study was comprised of adventist universities' employees who were actively working as regular full-time employees from 4 universities within the Southern Asia Pacific operational region of Seveth-day of Adventist Chruch located in Philippines, Thailand, and Indonesia. Their work positions were divided into three main categories: top management (administrator, president, and vice president); middle management (director, department head, manager, dean, chair and supervisor); and rank and file (teaching and non-teaching permanent staff). The name and identity of the participating respondens were disguised in keeping with the researcher's commitment to anonymity and confidentiality. Due the limitaion time and budget, the sampling method employed in this study, which was convenience random sampling technique. This technique was used to collect the data since among the population of the respondents, only those who were able to return the questionnaires during data gathering session were included in this study. For the final data gathering, 455 quistioner were distributed and 407 returned at a rate 89%.

The instrument used to collect data for this research was divided into three parts. Part one was the Organizational Trust (OT) questionnaire for measuring the level of trust in the organization. It was a modified questionnaire with six dimensions of trust (competence, openness, honesty, concern for employees, reliability, and identification) based on OT Index by Shockley-Zalabak, Ellis, and Cesaria (2000) and OT inventory developed by Philip Bromiley. It was a self-developed instrument designed for the purpose of this study. However, there were some items that needed to be deleted. Part two was the EFR questionnaire which was self-developed based on extensive literature review. Also added were the internal control strategies to minimize the risk of committing fraud in term of pressure, opportunities and rationalization (CPA Australia, 2011). Those questionnaires were designed with multiple-item scale measurement. Choices were indicated with 5-point alternative answer of likert-scale.

RESULTS

The OT level of respondents was *above average* in their respective organizations. The respondents rated themselves as *above average* in competence (Rank 1: *M*=4.10; *SD*=.57), reliability (Rank 2: *M*=3.97; *SD*=.71), identification (Rank 3: *M*=3.75; *SD*=.74), and honesty (Rank 4: *M*= 3.55; *SD*=.84). However, openness (Rank 5: *M*= 3.43; *SD*=.99) scale garnered an *average* rating. This implies that the respondents had *above average* trust in organization. Considering these findings, Shockley-Zalabak, Morreale and Hackman (2010) supported that the more positive the trust scored for an organization, the more effective the organization was perceived to be and the more satisfied (less dissatisfied) were the employees in their jobs. Conversely, lower trust scores predicted lower effectiveness and less job satisfaction (more dissatisfied).

They would almost always trust the *competence*, *reliability*, *identification*, and *honesty* of their organization; even if sometimes the organization was inconsistent with its commitment, words and actions in terms of the *honesty* dimension. On the other hand, they would sometimes distrust the *openness* of the management to receive adequate information regarding their job performance, job evaluation and handling of job related-problems.

The total average mean of all items in *competence* scale indicated that majority of respondents had *above average* competency to meet the overall efficiency of organization which comes respectively from the capabilities of their employees in doing their duties, producing quality product/service, and capability of management to present its negotiated obligations to the department.

The findings generally implied that respondents rated their trust to leaders' *reliability* as *above average*. It reveals that their immediate supervisors and management *almost always* keep their commitments to team members, behaves with consistent manner from day to day; keep their commitment; and their words as well to employees.

Respondents perceived their trust on *identification* with organization as *above average* in this sub-dimension. Their rank of each item for the identification scale of OT as shown in order rank that their values was *almost always* similar to the values of organization, immediate supervisor, and their peers, respectively.

The total average mean of the three items in *honesty* scale indicated that majority of the respondents had trust on honesty in the organization as they rated these as *above average*. When all items were recoded, *"Management misleads us"* garnered the highest mean of 3.83. This shows that respondents perceived that the management does not mislead them. However, the mean was still *average* for trust on honesty as respondents perceived that the management was *sometimes* inconsistent with their commitment, and as well as to their words which were inconsistent with their actions. In other words, respondents *sometimes* trusted or distrusted the consistency of the management's commitment, words, and actions.

In the totality of the *openness* construct, the respondents rated the organization's openness as *average*. Respondents seemed to *sometimes* receive adequate information regarding: how well they are doing in their job, how they are being evaluated, and how job-related problems are handled.

The EFR level of respondents was *below average*. Two out of three dimensions were *below average* which were *opportunities* and *rationalization*. However, *pressure* was rated *average* as the highest risk factor of EFR. This finding supports the claim of Wells (2001) that the most common reason employees committed fraud had little to do with opportunity, but more with pressure.

Pressure was found to be employees' primary reason to EFR with an *average* degree of scale. This factor mostly came from employees who desire for luxurious lifestyle, and followed by: employees have personal financial losses, employees are living beyond their means, and lastly by employee are dissatisfied about some aspects of their job respectively. However, those whose reason for obtaining wealth to be successful is more important than being honest are on rarely or below average risk.

However, they had *below average* risk on *opportunities* and *rationalization* factor to EFR with the following reasons: everyone has not been trained in accordance with the control procedures, and does not always implement physical access control such as locking doors, desks, filing cabinets, and cash registers. This finding is supported by GCAS audited report that one of most frequent internal control deficiencies which caused by client personnel who lack understanding of accounting principles (General Conference Auditing Service, 2009).

The result also implies that respondents rated employees' rationalization on fraud risk as *below average* bases on the following reasons: *organization authorized payments for incomplete supporting documents* which supported by General Conference Auditing Service (2009) as reviewing and approval process not consistent implemented; and, *accounting reconciliation reports (such as transaction, bank reconciliation, and analysis budget versus actual) are never done for whatever reasons*, which affirmed by General Conference Auditing Service (2009) finding that was failure in the operation of effectively designed controls on the reconciliation of bank accounts and interrogation accounts. On the other hand, respondents garnered a low rating mean of 1.42 for having other employment outside office working hours. This means that the respondents had no other employment outside office working hours. This condition supports the point that if management wants a theft-free work environment, it must set the example of honesty and adherence to policies (Wang & Kleiner, 2005).

As for the relation of *OT to EFR*, there is a negative and significant relationship between OT dimensions and EFR factors of the respondents' perception. In other words, the more employees trust the competence, reliability, identification, honesty and openness of their organization, the lower their level of EFR in the organization.

The predictors to the employee's fraud risk among OT dimensions are reliability, honesty, and competence. Moreover, when it comes to the variable that affects each dimension of EFR, honesty, reliability and competence predicted "*pressure"* on EFR. However, *"opportunities"* on EFR is predicted by all dimensions of OT: reliability, competence, honesty, openness, and identification. On the other hand, honesty, reliability, and competence of OT's dimensions significantly predicted respondents' "

DISSCUSSION AND CONCLUTIONS

Organizational Trust (OT) Level

The level of OT per scale of the respondents garnered an "above average" mean of 3.76 (*SD*=.56). The respondents rated their OT in their job environment as *above average* in terms of *competence* (*M*=4.10; *SD*=.57), *reliability* (*M*=3.97; *SD*=.71), *identification* (*M*=3.75; *SD*=.74), and *honesty* (*M*=3.55; *SD*=.84). However, respondents rated "average" for the *openness* (*M*=3.43; *SD*=.99) of the management.

Garnering *above average* mean on competency implicated that respondents highly trusted the capabilities of their co-workers, leaders and organization as a whole in doing their duties to produce quality product/service, and with capability of management to present its negotiated obligations to the department. In terms of reliability, respondents perceived that immediate supervisors and management almost always kept their commitments to team members and behaved consistently and dependably from day to day. They were also consistent with their commitment and their words to employees. Their identification with organization was *almost always* similar to the values of the organization, immediate supervisor and their peers. Moreover, they had an *above average* rating scale in terms of honesty; this means that respondents perceived that their organization would almost always trust the honesty of their employees, even sometimes if the management leads them inconsistent with their commitment and actions.

On the other hand, the study revealed that respondents had *average* degree of trust with the *openness* of their supervisors and managements to present the information regarding their job performance and evaluation, including how their job-related problems were handled. This finding reflected that organizations *sometimes* communicate handling problem with their employees about handling problems, engage in constructive disagreements, and provide input into job-related decisions. The minimum evaluation of this scale was close to the negative evaluation of this particular dimension that resulted to low trust outcomes in the organization.

Employee Fraud Risk (EFR) Level

The respondents rated their fraud risk level as a whole was *below average* (*M*=2.28; *SD*=.54). Two out of three dimensions were below average which were *opportunities* and *rationalization.* However, *pressure* was rated *average.* The respondents ranked their fraud risk level as follows:

a. In the first rank was "pressure" (*M*=2.62; *SD*=.90) with an *average* risk degree of scale level.
b. In the second rank was "opportunities" (*M*=2.30; *SD*=.75) with the level of scale risk degree of *below average*, and
c. In the third rank was "rationalizations" (*M*=1.93; *SD*=.68) with a scale risk degree *below average* to EFR (*M*=1.97; *SD*=.67).

The findings simply that since employees' fraud risk mostly came from financial pressure that employees desire for luxurious lifestyle as the highest ranked in terms of pressure (M=2.78; SD=1.19), they may tend to look for the opportunity to meet this pressure. Therefore, the risk on opportunities for committing fraud could be high which was caused by employees who have not been trained in accordance with the policy, control procedures or code of conduct including consequences or punishment of violators (M=2.53; SD=.99). Meanwhile, employees' rationalization risk degree was below average due to the weakness of implementing physical access control. The management *sometimes* implemented physical access control and sometimes not as respondents' rationalization reasons to engage with, specifically when neither door, desks, filling cabinets, and cash registers were not always locked (M=2.50; SD=1.27). Therefore, the possible result of fraud is high when pressure and opportunity are high, even with low rationalization.

Organizational Trust and Employee Fraud Risk

This study further found that the total OT proved to be *negatively* and *significantly* correlated with pressure (r = -.201; ρ<0.01, Sig. = .000), opportunities (r = -.735; ρ<0.01, Sig. = .000), and rationalizations (r = -.267; ρ<0.01, Sig. = .000). As the total OT, the correlation to total EFR is negative and significant at r = -.549 and Sig. = .000.

In summary, all OTs' dimensions were significantly correlated with EFR factors as indicated by its significant value (r = -.549, Sig. = .000) which is less than 0.01 margin of error. Thus, ***Ho is rejected***. Therefore, *there is a negative significant relationship between OT dimensions and EFR factor of the respondents' perception.* This finding implies, respondents who trusted their organization in terms of competence, honesty, openness, reliability, and identification has lesser risk to commit fraud. Thornton (2010) suggested that it is important to understand who to trust (people) and how to trust (controls) that are therefore critical steps in the development of any fraud prevention initiative.

The Effect of Organizational Trust (OT) Dimensions as Predictors to Employee Fraud Risk (EFR)

Table 1 presents the significant predictors of EFR among OT's dimensions. It shows that almost 33.3% of the total variance in the EFR can be explained by three dimensions in OT: *reliability, honesty,* and *competence*. Those components are significant proportion in this model which can be interpreted as the significant predictors to EFR with total multiple correlation relationship between these predictors and EFR (57.7%). This finding shows that 24.6% (t-value: -8.446; Sig. =.000) of the variation in EFR can be explained by knowing the reliability of management. It is the highest and the first variable that entered regression analysis with a negative unstandardized value (-.213). This negative correlation indicated that the more employees trust with the reliability of the management, the lower their EFR in the organization.

Table 1
The Effect of Organizational Trust (OT) Dimensions as Predictors to Employee Fraud Risk (EFR)

Entering Stepwise	Unstandardized Coefficients		Standardized Coefficients				
	B	**Std. Error**	**Beta**	***t***	**Sig.**	***R* Change**	***R***
(Constant)	4.454	.108		41.383	.000		
1. Reliability	-.213	.025	-.283	-8.446	.000	.246	.496
2. Honesty	-.159	.018	-.250	-8.640	.000	.061	.554
3. Competence	-.184	.030	-.197	-6.105	.000	.026	.577

Dependent Variable: EFR Total R^2 = .333; F = 160.067; Sig. = .000

This finding is supported by Shockley-Zalabak, Morreale, and Hackman (2010) and CPA Australia (2011) that reliability entails consistent and dependable actions needed for creating code of conduct with zero tolerance of any fraudulent activity on any level of the business as one strategy to reduce the risk of employee fraud. In addition, Albrecht, Albrecht, Albrecht, and Zimbelman (2009) stated that an effective policy for handling fraud should ensure that the facts were investigated thoroughly; firm and consistent action were taken against perpetrators, risks and controls were assessed and improved, and communication and training were on going.

The second variable that entered the regression analysis was *honesty* with 6.1% (*t*-value: -8.640; Sig. = .000) contribution portion of total variance in EFR. This means that *honesty* accounts for 6.1% of the variation in EFR. This variable also had a negative unstandardized value (-.159) which indicated that the more employees trust the honesty of management in organization, the lesser their EFR in the organization. This finding is in agreement with research in moral development which strongly suggested that honesty can be significantly reinforced when a proper example (model) was set (sometimes referred to as "the tone at the top/proper modeling). Therefore, management must reinforce by modeling to its employees through that dishonest, questionable, or unethical behavior would not be tolerated (Albrecht, Albrecht, Albrecht, & Zimbelman, 2009).

The third variable that entered the regression analysis was *competence* with 2.6% (*t*-value: -6.105; Sig. =.000) contribution portion of total variance in EFR. Since this variable had a negative unstandardized value (-.184), which indicated that the more competent employees are in an organization, the lower the risk of employee fraud.

In summary, the findings implied that those significant predictors had a negative significant relationship to EFR. It indicated that the more employees trust their organization in terms of reliability, honesty, and competence, the lesser the employee fraud risk in an organization. Further, Shockley-Zalabak, Morreale, and Hackman (2010) found, when employees no longer trust their employers, even rewards such as pay raises or promotions will not easily restore trust. Schyns and Hansbrough (2010) affirmed the worst results that corruption had a detrimental effect on faith and trust in business, institutions, and society in general. Corruption seriously damages system trust and thus endangers functioning of society in general. Therefore, Vasile (2004) suggested that owners, managers, and political figures within our society must take steps to create a culture of trust, honesty, and integrity within the business community.

RECOMMENDATIONS

Since OT has significant negative effect on EFR, it is recommended that every organization must aim to increase the levels of OT in terms of reliability, honesty and competence so that EFR will decrease.

The board members and administrators should design a system to manage fraud risk among the top officers. The management should also ensure the expectations of honesty and integrity to all levels of employees adhering to the policy and procedure or code of conducts. Therefore, the management is responsible to manage EFR by evaluating and observing employee's behavior; and to be aware that the heightened probability in committing fraud is caused by distrust with reliability, honesty, and competence of the organization which came up as the significant predictors to prevent and reduce EFR in the respondents' work environments.

Therefore, Human Resources Management Creates high-trust culture on *Openness* through setting open lines of communication between management and employees. This could be done by giving adequate information regarding how well they are doing in their jobs, how they are being evaluated, and how job-related problems are handle, including positive employee recognition. Creating high-trust culture on *Identification* through control and monitoring environment factors of employees' behaviors and their ethical value which indicates that their values are not contradictive to the values of the organization, immediate supervisor, and their peers in order to minimize conflict of interest between parties who are bonded together in organization. This is to fulfil a special target which is not in line with the mission and goals of the institutions.

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