

Predictors Reducing Employee Fraud Risk: Proposed a Model

Jhon Rinendy
Universitas Advent Indonesia
jhonrinendy@gmail.com

Abstract

This study aimed to examine the predictors of employee fraud risk (EFR) in organization base on fraud triangle theory that could be predicted by component behaviors of Organizational Trust (OT) dimensions such as competence, openness, honesty, reliability, identification, and Job Satisfaction (JS) dimensions: existence needs, relatedness needs, and growth needs, as perceived to reduce fraudulent acts. 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. There are 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 JS degree and EFR factors, and between OT and EFR of the respondents’ perception. Reliability, honesty, competence, existence needs, relatedness needs, and growth needs dimensions are the best predictors to reduce EFR. The results indicate the importance of well-structured organizational trust culture, job satisfaction and effective internal controls against employee fraud risk regarding misappropriation of assets by employees.

Key words: Fraud triangle, Job satisfaction, Organizational trust culture, and Employee Fraud Risk.

I. INTRODUCTION

The present trends cannot be ignored that fraud is more common (Wojcik, 2011), and more people may be tempted to engage in fraud, in order to maintain their lifestyles. The painful truth is, that good people can and do commit fraud as well (Hagan, 2008). Furthermore, when employee commits a fraudulent act, there is no direct evidence that a crime has been committed; there are only symptoms, or indicators of fraud (Kula, Yilmaz, Kaynar & Kaymaz, 2011). So, that fraud tends to be frequently a hidden risk, because its perpetrators take extreme care to conceal their activities and remain as an unmanaged risk in organizations and almost never observed directly. The study of Luell (2010) found that employee fraud in financial institution considerably monetary, which is fatal in term of reputation. Therefore, this phenomenon leads to business failure, destroyed careers and even bankruptcy of the organization.

These cases of employees’ fraud examples

produced massive and global failure of trust, including the accounting firms; such as what had happened to Enron and Arthur Andersen in the U.S., known as the “Enron Scandal”, that declared bankruptcy in 2001. This case became a popular symbol of corporate fraud and corruption, which brought into question the accounting practices and activities of many corporations. The scandal also affected the wider business world by causing the dissolution of the Arthur Andersen accounting firm (Cunningham & Harris, 2006).

Further, KPMG Forensic Accounting surveys reported that employee’s fraud cases are globally prevalent, which involve senior executives from 10,000 organizations representing more than 30 different industries in 15 countries. It was found that 82% of all known frauds perpetrated by employees, a third of these are committed by management (Pickett, 2010). Regionally in Asia; KPMG Australia and New Zealand (2010) reported in 2008 and 2010, which China and Indonesia (23%) stood out as two major countries where fraud was common. Followed by Thailand

(15%), Malaysia (11%) Vietnam and India (8%), Japan (4%) and Hong Kong (7%). Meanwhile, Singapore, Philippines and Pakistan (2%) had the lowest incidents.

The incidences also exist in non-profit organizations, like in universities, which have an impact on students and staff, interweaving into unethical patterns of behavior (Stone & Starkey, 2011). Invariably happens in church organizations in U.K. as reported by Medley in *Adventist Review* (2011). Therefore, it is important to understand what motivates people to commit fraud so it can better assess risk, and assist employers (Wells, 2001); especially during the recession, high interest rate, inflation rates and unemployment rates that are significant indicators of increased fraud risk (Yost, 2015). Regarding this phenomenon, fraud is a serious problem with difficulties in measuring it, (Albrecht, Albrecht, Albrecht & Zimbelman, 2009).

II. THEORETICAL FRAMEWORK

The theoretical framework of this study is based on the Fraud Triangle Theory, Job Satisfaction of ERG theory and Organizational Trust Dimensions. The Fraud Triangle Theory identified 3 elements that must be present for employees to commit fraud: 1) a perceived pressure (motivation), 2) a perceived opportunity, and 3) some way to rationalize the fraud as acceptable (Hagan, 2008). The Job Satisfaction of ERG theory by Aldefer (1972) which was a simplification of the basic human needs degree of Abraham Maslow's theory as laid the foundation for job satisfaction theory into three categories: Existence Needs, Relatedness Needs, and Growth Needs. The research also supported with a model of OT, which is defines as "The organization's willingness to be appropriately vulnerable based on the belief that another individual, group, or organization is competent, open and honest, concerned, reliable, and identified with common goals, norms, and values." (Shockley-

Zalabak, Ellis, Cesaria, Morreale, & Hackman, 2010).

III. METHODS

The main objective of this study was to examine the predictors of EFR that could be predicted by component behaviors of OT dimensions and JS dimensions as perceived to prevent and reduce fraudulent acts in relation to misappropriation of assets.

Specifically, this study attempted to answer the following questions:

1. What is the level of organizational trust (OT) of the tertiary schools as perceived by respondents in terms of competence, openness, honesty, reliability, and identification?
2. What is the level of perceived job satisfaction (JS) of the respondents in terms of existence needs, relatedness needs, and growth needs?
3. What is the level of employee fraud risk (EFR) as perceived by respondents in terms of pressures, opportunities and rationalizations?
Is there a significant relationship between the degree of organizational trust (OT) dimensions and the degree of job satisfaction (JS) dimensions?
5. Is there a significant relationship between the degree of organizational trust (OT) dimensions and the degree of employee fraud risk (EFR) factors as perceived by respondents?
6. Is there a significant relationship between the degree of job satisfaction (JS) dimensions degree and the degree of employee fraud risk (EFR) factors as perceived by respondents?
7. Which among the following dimensions: Organizational Trust (OT), Job Satisfaction (JS), and Moderator variables best predicts employee fraud risk?

8. What model can be proposed to prevent and reduce employee fraud risk?

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 the independent variable while the dependent variables were job satisfaction (JS) as perceived by the respondents. On the other hand, organizational trust (OT) and job satisfaction (JS) were both 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 tertiary schools' employees who were actively working as regular full-time employees from 16 tertiary schools within the Southern Asia Pacific operational region of SDA located in Philippines, Thailand, Indonesia, and Bangladesh. 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 institutions were disguised in keeping with the researcher's commitment to anonymity and confidentiality. Therefore, the subject companies were designated an institution's abbreviation as presented in Table 1. However, the researcher provided correspondence letter of the institutions' participants without any specific reference to their abbreviation coding.

Table 1
Distribution of the Respondents According to Adventist Tertiary Schools in SSD

No.	Tertiary School	Location	Distributed Questionnaire	Retrieved Questionnaire	Retrieved %
1.	AIIAS	Philippines	85	78	92
2.	APIU	Thailand	30	21	70
3.	AUP	Philippines	220	200	91
4.	BASC	Bangladesh	15	3	20
5.	CPAC	Philippines	90	84	93
6.	MAMCC	Philippines	40	35	88
7.	MSHC	Philippines	40	35	88
8.	MVC	Philippines	175	168	96
9.	NLAC	Philippines	100	84	84
10.	NVC	Philippines	25	16	64
11.	PTASN	Indonesia	30	18	60
12.	SPAC	Philippines	45	42	93

13.	UKLAB	Indonesia	95	83	87
14.	UNAI	Indonesia	110	103	97
To tal			1,100	970	88

The sampling method employed in this study 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. In the pilot study of the instruments: OT inventory, JS inventory and EFR inventory, out of 110 sets of all questionnaires which were distributed, 100 were subsequently retrieved from participating respondents with 91% retrieval. The data were eventually processed for factor analysis. According to Kass and Kinsley as cited in Field (2009), having between five and ten participants per variable up to a total of 300 is enough. Since there were 11 variables (which are 5, 3, and 3 variables, respectively for OT, JS, and EFR) with a sample size of 100, there were approximately nine participants per variable that made the number quite sufficient. For the final data gathering, the researcher allocated 69 participants per variable, for conservative purposes, to ascertain the sample size. Since there were 14 variables all in all, including demographic profiles of respondents a total of 1,100 sets of four research questionnaires were distributed, and 970 sets of all questionnaires were retrieved at a rate of 88%. However, 4 sets were deleted due to lack of pertinent information provided, leaving a total of 966 validated questionnaires.

The instrument used to collect data for this research was divided into four parts. Part one was for the demographic profile of the respondents, such as educational attainment, current position, and number of years in current position. Part two 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. Part three was the needs degree of Job Satisfaction (JS). It was a self-developed instrument designed for the purpose of this study. However, there were some items that needed to be deleted. Some items were added from the Family Practice Management JS survey by Syptak, Marsland, and Ulmer (1999) based on the theory by Frederick Herzberg. This instrument sought to identify the given 10 facets of satisfaction factors: salary, job security, fringe benefits, working environment, interpersonal relations, supervision, management, recognition, achievement, and advancement which were classified according to Clayton Alderfer's ERG (Existence, Relatedness, and Growth) needs theory. Part four 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 5point alternative answer of likert-scale.

IV. RESULTS

1. 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.

2. Job Satisfaction (JS) Level

As for JS level of the respondents as a whole, it was found that they were *almost always* ($M=3.74$; $SD=.50$) or *above average* satisfied (for all needs degrees: existence needs, relatedness needs and growth needs) as to the extent of the relationship between OT and EFR. Among the three dimensions, the respondents garnered the highest score in relatedness needs degree (Rank 1: $M=4.11$; $SD=.62$), and followed by existence needs degree (Rank 2: $M=3.82$; $SD=.59$) which is interpreted as above average, and the lowest score in growth needs degree (Rank 3: $M=3.27$; $SD=.77$) was average.

3. Employee Fraud Risk (EFR) Level

The EFR level of the respondents as a whole was *below average* ($M=2.28$; $SD=.54$). The respondents ranked their fraud risk level as follows:

- In the first rank is “pressure” ($M=2.58$; $SD=.91$) with an *average* degree of scale level.
- In the second rank is “opportunities” ($M=2.30$; $SD=.71$) with the level of scale degree of *below average*.
- In the third rank is “rationalizations” ($M=1.97$; $SD=.67$) with a scale degree *below average* to EFR ($M=1.97$; $SD=.67$).

The findings imply that since employees’ fraud risk mostly came from financial pressure that employees desire for luxurious lifestyle as the highest ranked in terms of pressure, 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. 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. Therefore the possible result of fraud is high when pressure and opportunity are high, even with low rationalization.

4. Relationship among OT and JS

It was found that all OTs’ dimensions were significantly correlated with JS as indicated by its significant value ($r=.719$, Sig. = .000) which was less than 0.01 margin of error. Hence, H_0 is rejected.

5. Relationship among OT and EFR

It was founded, all OTs’ dimensions were significantly correlated with EFR factors, as indicated by its significant value ($r=-.549$, Sig. = .000) which was less than 0.01 margin of error. Thus, H_0 is rejected.

6. Relationship among JS and EFR

It was found, JS dimension degree was significantly correlated with EFR factor which indicated a significant value ($r=-.532$; Sig. = .000) which was less than 0.01 margin of error. Thus, H_0 is rejected.

7. The Significant Predictors of Employee Fraud Risk (EFR)

In general that shown on Table 2, it was found that more than 33% of the total variance in the EFR could be explained by three (3) dimensions of OT as the significant predictors to EFR, namely: *reliability* (24.6%), *honesty* (6.1%) and *competence* (2.6%); and almost 32% of the total variance could be explained by three (3) dimensions in JS, namely: *existence needs* (26.7%), *relatedness needs* (4.3%), and *growth needs* (0.8%).

Table 2
The Significant Predictors of EFR among OT Dimensions in their Job Environment

Variables	Rank	Pressure	Opportunities	Rationalization	EFR
Org. Trust :	1	Honesty (4.1%)	Reliability (41.8%)	Honesty (6.2%)	Reliability (24.6%)
	2	Reliability (1.5%)	Competence (6.1%)	Reliability (2.5%)	Honesty (6.1%)
	3	Competence (.4%)	Honesty (4.2%)	Competence (0.4%)	Competence (2.6%)
	4	-	Openness (2.1%)	-	-
	5	-	Identification (1.2%)	-	-
Total		6%	55.3%	9.1%	33.3%

When correlating the demographic profile of respondents to predict EFR, it was found that 0.6% and 0.9% of the total variance of pressure (with negative unstandardized coefficients of .044) and opportunities (with negative

unstandardized coefficients of (-.121) factors of EFR could be explained by the “*number of years in current position*” and the difference of “*current position*”, respectively.

Table 3
The Significant Predictors of EFR among JS Dimensions in their Job Environment

Variables	Rank	Pressure	Opportunities	Rationalization	EFR
Job Satisfaction:	1	Existence Needs (4.7%)	Existence Needs (40.8%)	Relatedness Needs (11.5%)	Existence Needs (26.7%)
	2	-	Growth Needs (6.8%)	Existence Needs (2.7%)	Relatedness Needs (4.3%)
	3	-	Related Needs (1.3%)	-	Growth Needs (.8%)

<u>Total</u>		<u>4.7%</u>	<u>48.9%</u>	<u>14.2%</u>	<u>31.8%</u>
Table 4 The significant predictors of EFR among moderator			<i>Sia</i>		

VariabRa **Opportuni** **Rationalizat**
Pressure
les nk **ties** **ion**

Number
Number of of Years
Current Years of
Moder of
1 Position Current **ator**
Current (.9%) Position
Position
(.5%)
(.6%)

This implies that the higher “*number of years in current position*” and “*current position*” of employees, the lower their pressure and opportunities to engage in fraudulent activities, respectively. On other hand, the variable of “*number of years in current position*” had a positive unstandardized value which contributed .5% of the variance to employees’ fraud rationalization. This means that the longer number of years the respondents held their current position, the higher their tendency to make rationalizations of fraud in their organization.

Predictors to Pressure. It was found that 6% of the variation in the respondents’ pressure on EFR could be explained as the significant predictors by three out of five OT’s dimensions, such as *honesty* (4.1%), *reliability* (1.5%) and *competence* (0.4%) with total correlation relationship between these predictors and pressure (24.4%); and 4.7% of

the total variance in pressure could also be explained by *existence needs* with total correlation relationship (21.7%).

Predictors to Opportunities. It was found that more than 55% of the variation in the respondents’ opportunities on EFR could be explained by OT dimensions, namely: *reliability* (41.8%), *competence* (6.1%), *honesty* (4.2%), *openness* (2.1%), and *identification* (1.2%) with total correlation relationship of 74.4%; On the other hand, 48.9% of the variance was explained by JS’s dimensions, such as: *existence needs* (40.8%), *growth needs* (6.8%) and *relatedness needs* (1.3%) with total correlation relationship (69.9%).

Predictors to Rationalizations. It was also found that 9.1% of the variation in the respondents’ rationalization could be explained by three dimensions of OT, such as: *honesty* (6.2%), *reliability* (2.5%), and *competence*

(.4%) with total correlation relationship (30.2%). However, 14.2% of the variance in rationalization was explained by two dimensions of JS, such as: *relatedness needs* (11.5%) and *existence needs* (2.7%) with total correlation relationship (37.7%).

V. DISCUSSION

There are no winners when fraud occurs. The reputation and career of perpetrators can be damaged in the future. At worst, perpetrators might be given judgment and put in prison for years. At best, a person who commits fraud may enjoy a luxurious lifestyle or keep a company from failing for a while. On the other hand, the reputation of the organization in the eyes of stakeholders: suppliers, customers, competitors, possible employees and other business partner can be damaged. This means that, the organization or individuals from whom funds are stolen are also losers.

In addition, the organization may spend hundreds of hours investigating, preparing legal defends, and testifying in the case. In short, dishonesty costs both the victim and the perpetrators much more than what they have embezzled. Thus, fraud prevention is where the big savings occur. When fraud is prevented, there are no detection or investigation costs. There are no bad examples of fraud in the organization. The organization does not have to make tough termination and prosecution decisions. Valuable work time is not lost to unproductive activities of dealing with crises. Therefore, it is essential for organizations to prevent fraud rather than cure it when considering how to manage risk employee fraud. It was found recently base on the research of Slezak (2014) with data concerning employees attitudes using an online survey of 938 employees from 56 randomly school district in New York State, that a specific recommendations are presented in attempt to improve school district fraud prevention efforts.

It is also important to realize that employee fraud cannot be eliminated, but the risk of it occurring can be substantially reduced. The strategies to reduce the risk of employee fraud risk can be made through the understanding of how a fraud occurs. There are three necessary elements which comprise the fraud triangle: pressure, opportunity and rationalization. In many ways, fraud is like fire (Albrecht, Albrecht and Zimbelman, 2009).

In order for a fire to occur, three elements are necessary as well: 1) oxygen, 2) fuel, and 3) heat. These three elements make up the “fire triangle”. When all three elements come together, there is fire. Therefore, firefighters know that a fire can be extinguished by eliminating any one the three elements. Heat is most commonly eliminated by pouring water on fires, fuel is removed by shutting off the source of the fuel, and oxygen is eliminated by smothering or using chemicals. As with the elements in the fire triangle, these three elements in the fraud triangle are interactive. With fire, the more flammable the fuel, the less oxygen and heat it takes to ignite. Similarly, the purer the oxygen, the less flammable the fuel needs to be to ignite. In the case of fraud, the greater the perceived opportunity or the more intense the pressure, the less rationalization it takes to motivate someone to commit fraud. Likewise, the more dishonest a perpetrator is, the less opportunity and/or pressure it takes to motivate fraud.

Unfortunately, people who try to prevent fraud usually work on only one of the three elements of the fraud triangle: opportunity. They focus all or most of their preventive efforts on implementing controls, but it is rarely focusing on the pressure motivation fraud and or the rationalizations of perpetrators which are called as fraudulent behaviors. However, as found in this study, the successful implementation of such control begins with the control environment of the organization. The organization trust culture and employee’s job satisfaction such as honesty and satisfaction existence needs dimensions are the predictors

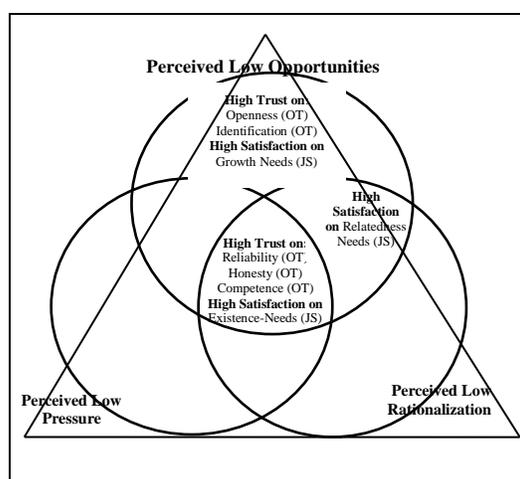
of employee fraud risk which had significant relationship with those factors. In other words, less honesty makes it easier to rationalize, thus requiring less perceived opportunity and/or pressure for fraud to occur. Therefore, in order to anticipate some degree of risk of employee fraud, the organization must need a balanced strategy between internal control and management of employee's behavior.

The proposed model in Figure 1 was designed base on findings to reduce the potential employee fraud risk through the implementation of each dimension of high organizational trust and job satisfaction with the outcomes on low pressure, opportunity and rationalization of employee fraud risk in SDA tertiary school in SSD.

Perceived Low Pressure

The factors of low employee fraud risk on pressure can be reduced with high organizational trust culture of *honesty*, *reliability* and *competence*, and high employee's satisfaction of *existence needs* of every employee within the organization. The trust on honesty and existence needs' satisfaction is the major factor on this fraud risk.

Figure 1 Proposed Model of Employee Fraud Risk Prevention and Reduction



High-trust culture on Honesty

Creating and conducting culture of honesty may reduce pressure on fraud risk when every employee within the organization adhered to the policies and procedure. Therefore, the management or the leaders should behave honestly as leading employees by example of honesty with consistent manner from day to day and be held accountable actions to follow the policies and procedures or code of conducts as exemplified by honest employees. The Board of Trusty has designed a system to manage fraud risk among the top officer and management will be responsible to inform, communicate and ensure the expectations of honesty and integrity which adhere to the policy and procedure or code of conducts to all level of employees through open line communication standard, interaction courtesy and feedback mechanism between management and employees with consistent commitments, words and actions as they do and what they know they should do.

High-trust culture on Reliability

Top management consistent with their words and actions to follow and stick with the policies, procedures or the code of conduct, legal compliance, lawful contracts, appropriate rules and standards, and having assurance of fulfillment of expectations in the best interest of organization with zero tolerance of any fraudulent activity to any level of employees.

Immediate supervisors and top management keep commitments consistently with team members to create positive working environment with fair employment practice and ensure that policies, control procedures, organizational structure, job responsibilities are clearly written. They have training for support and continual learning that every employee has access to the procedure and open lines communication for feedback, suggestion, expectation, about the consequences or punishment of violators.

Immediate supervisors behave ethically with consistent manner and responds quickly to

ethical abuse on addressing punishment to ethical violation with high integrity from day to day to eliminate people's rationalizations for being inconsistency between what they do and what they know they should do.

High-trust culture on Competence

The organization should have the capabilities of employees in doing their duties and producing quality product/service with capability of management to create a good system of controls for the effectiveness operation such as control environments, control activities and the effectiveness of accounting functions.

Control environment includes management's role and example as adhere to policies and procedures, creating policy manual and code of conduct, management communication, welldefine hiring practices, clear organization structure and the attention and direction provided by the board of directors. Control activities consist of the way management assigns authority, responsibility, and segregation of duties, and organizes and develops its people, monitor employees' behavior, implement physical access control, and effective internal audit department. Meanwhile, a good accounting system should ensure that recorded transactions are (1) valid, (2) properly authorized, (3) complete, (4) properly classified, (5) reported in the proper period, (6) properly valued, and (7) summarized correctly (Albrecht, Albrecht & Zimbelman, 2009).

High-satisfaction on Existence needs

Maintaining and keeping employees satisfaction with their existence needs in terms of pay, and benefits, which adequate to cover their cost living and expenses accounts is needed by making periodical adjustment for salary, inclusive fringe benefit, compensation and benefits competitively with similar organizations especially for those who feel underpaid or unappreciated, thus assuring their

future pay to set demanding personal goals continually and keeping them excited to stay longer in organization with honesty behavior. Further in relation to working environment, research and design user friendly work environments based on the mutual feedback between management and employees on regards to equipment, supplies, technologies, and design work environment facilities.

Perceived Low Opportunity

Aside from the aforementioned four factors, openness, and identification of organizational trust dimensions, and growth needs and relatedness of employees' job satisfaction are the factors that can reduce opportunity for fraud risk. However, reliability and existence needs are the major contributors on this risk.

High-trust culture on Openness

It is needed also to create and maintain culture of openness to provide information on individual and organizational result and problems, and giving assistance and training to or support continual learning and development between management and employees in order to form and implement the procedures with zero tolerance of breaches and adherence to the procedure by having open lines of communication and open-door or easy access to policies and procedures. These include positive recognition such as reward and recognize contributions by giving adequate information regarding how well they were doing their job, how they were being evaluated, and how job-related problems were handled.

High-trust culture on Identification

This factor indicated how connected employees felt towards the management and co-workers. It would support the investigation of the consequences of agency problems, which may as a result of conflict of interest between parties who are bonded together in organization, to fulfil a special target which is not in line with

the mission and goals of the institutions. This problem can be solved through monitoring employees' behaviors and or personal contact meeting with the employee to find out such that their values and interest are similar or not to the values of the organization, immediate supervisor, and their peers as the control environment factors to the employees' ethic and value system.

High-satisfaction on Growth needs

Maintaining and keeping employees' satisfaction for being rewarded for their loyalty, being considered for promotion in a meaningful way, and having high opportunity for being promoted from within as well as being rewarded for their performance by having high opportunities to be placed in higher positions.

High-satisfaction on Relatedness needs

Maintaining and keeping employees' satisfaction with their connection with organization through having job security in the

future as they enjoyed with the challenging work; their skills were not meaningless to the organization; as they thought that organization needs their experience as well and they have no fear of losing the job in the future.

Perceived Low Rationalization

Honesty, reliability, competence, relatedness needs, and existence needs as explained earlier are the factors of rationalization in reducing employees' rationalizations for being inconsistency between what they do and what they know they should do. However, honesty on organizational trust dimension and relatedness needs of employees' satisfaction is the highest contributors affecting rationalization risk. Slezak (20140) found that employees are less likely to report rationalization about fraud where strategies have been implemented. Means, as the number of strategies increases, rationalization tends to decrease. In summary, the organization could minimize the risk of becoming a victim of employee fraud through the implementation of some strategies as shown in Table 5 on page 13.

Table 5

The Organizational Trust, Job Satisfaction and EFR Outcomes Model

High-Trust on OT Dimensions	Perceived <u>Low Employee Fraud Risk</u> Outcomes		
	Pressure	Opportunity	Rationalization
Reliability: <i>Whether or not a coworker, team, or organization acts consistently and dependably we can count on them to do they say.</i>	<ul style="list-style-type: none"> • Top management consistent with their words and actions to follow the policies, procedures or the code of conduct in the best interest of organization with zero tolerar of any fraudulent activity to any level of employees. • Immediate supervisors and top management keep commitments consistently with team members to create positive working environment with fair employment practice and ensure that policies, control procedures, organizational structure, job responsibility are clearly written and is trained in them that every employee has access to the process with open lines of communication about the expectation and consequences or punishment of violators. • Immediate supervisors behave ethically with consistent manner and high integrity from day to day as lead employees by example to eliminate people's rationalizations for being inconsistency between what they do and what they know they should do. 		

<p>Honesty: <i>The sincerity and appropriateness of the words used when people are asked what contributes to an organization's communication.</i></p>	<p>Creating and conducting culture of honesty through communicating expectations of honesty and integrity by management, who leads employees by example of honesty when they are consistent with their commitments, words and actions which adhere to the policy and procedure or code of conducts and be held accountable for their actions as they do what they know they should do.</p>
---	--

Competence: *How strongly we believe that our organization will compete and survive in the marketplace.* The organization have the capabilities of employees in doing their duties, producing quality product/service, and capability of management to create a good system of controls, such as control environments which is needed management's philosophy and operating style, the way management assigns authority, responsibility, and organizes and develops its people, and the attention and direction provided by the board of directors, including well-define hiring practices, clear organization, and good internal audit department.

<p>Openness: <i>The amount and accuracy of information when people are asked what contributes to an organization that is shared openly.</i></p>		<p>Open lines of communication between management and employees by giving adequate information regarding how they were doing their job, how they were being evaluated, how job-related problems were being handled, including positive employee recognition.</p>	
---	--	--	--

<p>Identification: <i>How connected we feel to management and to coworkers.</i></p>		<p>Controlling and monitoring environment factors of employees' behaviors and ethical values which indicate that their values are similar to the values of organization, immediate supervisor, and peers in order to minimize conflict of interest between parties who are bonded together in organization, to fulfill a special target which was not in line with the mission and goals of the institutions.</p>	
---	--	---	--

High-Satisfaction on JS Dimensions	Perceived Low Employee Fraud Risk Outcomes		
	Pressure	Opportunity	Rationalization
<p>Existence Needs: <i>is concerned with the basic pay, benefits, and working environment which adequately cover their cost of living and requirements for material expenses; and make periodical adjustment for salary, inclusive fringe benefit, existence: physiological compensation and benefits competitively with similar organizations especially for those and safety needs. In a work context this need is satisfied through pay, honesty behavior, fringe benefits, a safe working environment.</i></p>	<p>Maintaining and keeping employees satisfaction with their existence needs, such as providing adequate to cover their cost living and requirements for material expenses</p>	<p>adequate to cover their cost living and requirements for material expenses</p>	<p>adequate to cover their cost living and requirements for material expenses</p>

<p>Relatedness Needs: <i>These needs co-relate to Maslow's third and fourth levels which focus on the ability to establish and maintain interpersonal relationships with family, friends, co-workers and employers.</i></p>		<p>Maintaining and keeping employees' satisfaction with the connection with organization through having a job security in the future as they enjoyed with the challenging work; the skill were not meaningless to the organization; as they thought that organization needs their experience as well and they have no fear of losing the job in the future.</p>
<p>Growth Needs: <i>These needs co-relate to Maslow's fourth and fifth levels which are about the fulfillment of desires to be creative, productive and to complete meaningful tasks in order to build and enhance a person's self-esteem through personal achievement. These needs are all about by personal development. In a work context, a person's job, career, or profession can provide a significant satisfaction of growth needs through recognition, advancement and achievement.</i></p>		<p>Maintaining and keeping employees' satisfaction for being rewarded for their loyalty, being considered for promotion in meaningful work and having high opportunities being promoted from within well as being rewarded for performance by having high opportunities to be given in higher positions.</p>

VI. REFERENCES

- Albrecht, W. S., Albrecht, C. C., Albrecht, C. O., & Zimbleman, M. (2009). *Fraud examination*. (3rd Ed.). USA: SouthWestern Cengage Learning.
- Cunningham, G. M., Harris, J. E. (2006). Enron and Arthur Andersen: the case of the crooked E and the fallen A. *Global Perspectives on Accounting Education*, 3, 27-48.
- CPA Australia. (2011). *Employee fraud: a guide to reducing the risk of employee fraud and what to do after a fraud is detected*. Retrieved from: <http://www.cpaaustralia.com.au/cps/rde/xbcr/cpa-site/Employee-fraud-guide.pdf>
- Field, Andy. (2009). *Discovering statistic using SPSS*. (3th Ed.), London: Sage Publication, Ltd.
- Hagan, R. (2008, July). Reasons why some 'trusted' employees commit fraud. Boulder County Business Report, 27(14), 25A. Retrieved September 9, 2011, from ABI/INFORM Dateline. (Document ID: 1521824721).
- Kula, V., Yilmaz, C., Kaynar, B. & Kaymaz, A. R. (2011). Managerial Assessment of Employee Fraud Risk Factors Relating To Misstatements Arising From Misappropriation Of Assets: A Survey Of Ise Companies. *International Journal of Business and Social Science: Special Issue*, 2(23)
- KPMG Australia and New Zealand (2010). *Fraud and misconduct survey 2010: australia and new Zealand*. Retrieved from <http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Fraud-Survey/Documents/Fraud-and-Misconduct-Survey-2010.pdf>
- Lodico, M. G., Spaulding, D. T., & Voegtler, K. H. (2010). *Methods in Educational*

- Research: From Theory to Practice, 2nd Edition. San Francisco, CA: Jossey-Bass. Retrieved from <http://books.google.com/>
- Retrieved from http://pqdtopen.proquest.com/#viewpdf?di_spub=3611898
- Luell, J. (2010). *Employee fraud detection under real world conditions*. (Thesis). University of Zurich. Retrieved from <http://dx.doi.org/10.5167/uzh-44863> ; <http://www.zora.uzh.ch/44863/1/dissLuell.pdf> ; Luell, J <http://www.zora.uzh.ch/view/authors_for_linking_in_citation/Luell=3AJ=3A=3A.html>. Employee fraud detection under real world conditions. 2010, University of Zurich, Faculty of Economics.
- Medley, C. (2011). *Adventist review: fraud story*. World Religious News. Retrieved on Aug 25, 2011, from <http://www.adventistreview.org/article.php?id=1613>
- Pickett, K. H. S. (2010). *The internal auditing handbook*, (3rd Ed.). UK: John Wiley & Sons Ltd
- Shockley-Zalabak, P. S., Ellis, K., Cesaria, R. (2000). *Measuring organizational trust*. International Association of Business Communicators. Retrieved from <http://www.iabc.com>
- Shockley-Zalabak, P. S., Morreale, S. P., & Hackman, M. Z. (2010). *Building the hightrust organization*. San Francisco, CA: John Wiley & Sons, Inc.
- Slezak, K. (2014). *Fraud Prevention and Employee Rationalization in New York State Public Schools*. (Thesis). State University of New York at Albany.
- Syptak, J. M., Marsland, D. W., & Ulmer, D. (1999). *Job satisfaction: putting theory into practice*. Family Practice Management. Retrieved from <http://www.aafp.org/fpm/1999/1000/p26.html>
- Stone, M., & Starkey, M. (2011). The possible impact of university corruption on customers' ethical standards. *Journal of Database Marketing & Customer Strategy Management*, 18(3), 154-170. Retrieved December 12, 2011, from ABI/INFORM Global. (Document ID: 2509959721).
- Wells, J. T. (2001). Why employees commit fraud. *Journal of Accountancy*, 191(2), 89-91. Retrieved December 11, 2011, from <http://www.ace.com/resources/view.asp?ArticleID=41> ABI/INFORM Global. (Document ID: 67508096)."
- Wojcik, J. (2011, October). *Employee theft, fraud pose growing challenge :Midsize companies viewed as especially vulnerable*. *Business Insurance*, 45(40), 6. Retrieved December 14, 2011, from ABI/INFORM Global. (Document ID: 24901729)
- Yost, E. (2015). *Conditions Associated with Increased Risk of Fraud: A Model for Publicly Traded Restaurant Companies*. (Doctoral Dissertation). University of Central Florida. Retrieved from <http://digital.library.ucf.edu/cdm/ref/collection/ETD/id/6689>