


# Chapter 2

## Frauds in Business Organizations: A Comprehensive Overview

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### **ABSTRACT**

*Fraud has been evolving and increasing with the change in the work environment, organizational structures, industrialization, and legislation. Money, greed, manipulation, job pressures, family needs, opportunity, politics, rationalization are the crucial reasons that lead people to behave fraudulently. The purpose of the chapter is to discuss a brief overview of theories of fraud. It presents causes that inspire individuals to commit fraud, methods for identifying fraud, and motives that encourage people to commit fraud. Management must try to eliminate the vulnerabilities that offer criminals the chance to commit fraud. Organizational leaders must be diligent, implement a robust anti-fraud strategy, and discourage all improper practices. Employee performance can also be strengthened through realistic anti-fraud preparation, and conformity with legal and regulatory obligations. Thus, fostering an ethical corporate culture is essential for fraud prevention.*

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## **1. INTRODUCTION**

Fraud is a law infringement that is created by a person for his/her own gain. Fraud has been one of the most troublesome obstacles to economic growth (Azim & Azam, 2016). Fraud is an intentional act with an intention to damage anyone. Fraud includes stealing, corruption, conspiracy, embezzlement, money laundering, bribery, and extortion. The legal definition can be different in each country. Deception, dishonesty, and ethical misconduct are all common examples of fraudulent behaviors. Shoplifting, embezzlement, and other forms of digital crimes are everyday hazards for business owners. Businesses stand to lose a lot of profit and income as a result of fraud. Regardless of the size of business, industry, or country, fraud is one of the biggest problems that most organizations are facing today. Fraud has been evolving and increasing with the change in the production, work environment, organizational structures, industrialization, and legislation.

Business organizations with valuable property (i.e., cash, goods, information, or services) are likely to attract fraudsters. The ACFE (2016) report explains that small businesses (particularly those with less than 100 employees) suffer fraud more frequently than large organizations and are hit by higher average losses. Generally, once large fraud hits a small company, it is less likely to absorb the damage than a larger company. When looking at fraud through the small business proprietor and manager lens, there are many significant problems to address, such as interpersonal relationships. Unfortunately, many small business workers have betrayed their employers by taking advantage of their jobs for financial gain (Ding & Wu, 2014). Accounting fraud also results in significant monetary losses. There are catastrophic consequences for the economy and the state because of financial losses. In some cases, fraud is a result of poor controls or non-existent controls. Fraud affects many business sectors, including schools, charity, health care services, banks, manufacturing, and pharmaceutical sectors. Ever-changing and improved technology has made it easy for counterfeiters to produce fake products. For example, in late 2006, 14 Siberian towns declared a state of emergency due to mass-poisonings caused by fake vodka. Around 900 people were hospitalized with liver failure after drinking an industrial solvent sold as vodka.

## **2. BACKGROUND**

Trustworthiness in business is usually taken for granted because business owners believe workers can be trusted (Smith, 2016). This naive confidence causes business owners to become victims of workplace fraud which allows them to misappropriate properties. Both men and women commit fraud in every sector, except for the banking industry where women outnumber men (Bonny, Goode, & Lacey, 2015). If an employee is motivated to commit fraud, that person could be of any age or gender and may appear trustworthy. When companies know that they are not immune to occupational fraud, researchers need to continue research on occupational fraud and workplace monitoring procedures. Fraud is one of the most challenging issues to solve (Gullkvist & Jokipii, 2013). Van Gelder and DeVries (2016) indicated that there is a lack of facts regarding employee misconduct by ordinary employees, considering the incidence of employee theft. High-profile white-collar offences are more discussed in research although fraud in the workplace is more frequently committed. Occupational fraud now has gained relatively large research attention.

Sutherland (1983) introduced the term white-collar crime. White-collar fraud occurs when persons in senior positions use their power and position to manipulate legislation decisions in their favor (Fried-

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