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Do Fraud Triangle Components Motivate Financial Crimes in Somalia?

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Abstract

Financial crime is one of the most divisive issues in today's society and is receiving much attention from people worldwide. This study examined the applicability of the components of the fraudulent triangle (pressure, opportunity, and rationalization), and the main objective was to determine whether these factors contributed to the occurrence of financial crimes in Somalia. The study used a correlational research design, and the primary data were collected from 200 respondents using a questionnaire. The results show a statistically positive relationship between these components and financial crimes. The findings reveal that opportunity has a stronger positive correlation than the other two elements. The study suggests that independent national agencies and committees be established or activated and frequent audit procedures be conducted to prevent financial crimes in the public sector. Effective accountability mechanisms are additionally required to promote transparency and good governance in public institutions.

Keywords: financial crimes, fraud, corruption, fraud triangle, pressure, opportunity, rationalization, accountability, public sector, Somalia

1. Introduction

Financial crime is a major crime that is always growing in both frequency and the amount of unlawful wealth that it generates, and it is a persistent worldwide issue that the global community must deal with (Kasum, 2009; Michel, 2008). This crime does not occur in a particular sector or institution, but it exists in the private and public sectors, financial and commodity markets, big and small institutions, education, health, development projects, and programs (Kulmie, 2023; Reurink, 2019; Lokanan, 2018). Several studies have indicated that financial crimes negatively impact governance, resource management, economic growth, and social development (Saddiq & Abu Bakar, 2019; Christian et al., 2019; Okoye & Gbegi, 2013). Research findings and reports clearly indicate that financial crimes and their consequences have increased (Christian et al., 2019). For instance, studies show that 30% of the evaluated companies are victims of fraud, and over 80% of these cases are committed by their top management (Shaikh & Nazir, 2020). Financial crimes and irregularities are fundamental problems in third-world countries (Kasum 2009).

According to the TI report (2022), over the past five years, only eight countries have witnessed an increase in ratings, and ten others, including high-ranking countries such as Austria and the United Kingdom, have suffered significant rating reductions. The levels of corruption in the remaining 90% of nations have not changed. Additionally, this report revealed that Somalia ranked worst in the 2022 Global Corruption Index (GCI). Further, countries with financial crimes are characterized by high unemployment and poverty rates since financial crimes destroy economic assets and social capital (Adegoke, 2014). Public service delivery in these countries is inefficient (Free, 2015) and has less economic growth (Folorunsho and Rufus, 2017). However, countries such as Somalia, Nigeria, and Kenya face a higher degree of financial crime (Abdullahi & Mansor, 2018; Kulmie, 2023). Public financial crimes are among the factors that play a significant role in Somalia's socioeconomic problems and poverty and in other similar countries (Kulmie, 2023).

Research on this area has increased; some of these papers, like Gottschalk (2010) and Pickett and Pickett (2002), investigated the nature and types of these crimes, while others, including Dong (2011), Goel and Nelson (2010), Gobert and Punch (2007), and Rezaee (2005), examined the underlying causes of financial crimes. Other researchers, such as Redzuan (2019), Rabiu and Noorhayati (2015), Obuah (2010), Kempa (2010), and Lister (2007), studied how these crimes can be prevented, detected, and responded to. Most of these studies were guided by theories, models, and frameworks developed by other researchers. Theories such as fraud triangle theory and fraud diamond theory have contributed a great deal of knowledge that has helped researchers conduct their research in many countries, sectors, industries, and institutions and, in turn, contribute to the field. This study attempts to identify whether fraudulent triangular components motivate financial crimes in Somalia.

2. Conceptual Review

2.1 Description of Financial Crimes

The definitions of financial crimes vary because of their nature, scope, and complexity. Financial crime refers to deception and concealed practices. It is generally referred to as non-violent crimes against the property of other people for personal gain (Kulmie, 2023; Kulmie et al., 2023; Andvig et al., 200). These crimes usually create financial losses and may occur once an individual or entity obtains money, resources, or other benefits in an illegal and unethical manner. Based on the consequences, they can be classified as simple financial crimes or large-scale financial crimes (Alexandru Ioan Cuza, 2021). These crimes increase or decrease with the level of development but always exit as societies exit, and they are considered obstacles that governments and communities confront (E. Okpuvwie et al., 2021). However, these crimes are more dynamic (Omar, 2016) and can take many different forms, including insider dealing, financing terrorism, money laundering, fraud, bribery, tax evasion, counterfeiting and forgery, and market abuse (Gibson & Louw, 2017; Gibson & Lewis, 2014).

2.2 Components of Fraud Triangle Theory

Numerous scholarly investigations have made concerted efforts to discern the underlying catalysts behind financial fraud or misconduct, with the objective of analyzing its origins. In this regard, Cressey has undertaken a comprehensive examination of 250 individuals engaged in criminal activities, subsequently formulating what has come to be known as the fraud triangle theory. The said theory posits that three essential elements are imperative for an individual inclined towards fraudulent actions to deliberately undermine or dismantle trust-based relationships, as graphically represented in Figure 1. Namely, these constituents encompass pressure, opportunity, and rationalization (Abdullahi & Mansor, 2018). The particular significance within the framework of the fraud triangle theory is pressure—both monetary urgency and necessity play vital roles in perpetrating fraudulence (Lister, 2007). Therefore, utmost care should be taken when using language such as perceived while elucidating pressure or an occasion conducive to engaging in fraudulent behaviors, for it must be acknowledged that these facets may not necessarily transpire concretely but rather hinge solely on an offender's perception or outlook (Albrecht et al., 2006). Lister (2007) categorized the sources of pressure into three distinct groups: personal, work-related stress, and external pressures. Vona's (2008) research delved into various institutional and human factors that contribute to fraudulent activities, such as avarice, financial strain caused by significant personal expenses or debt, familial burden resulting from economic difficulties, and substance addiction. In less developed nations, it is commonly believed that meager remuneration in the public sector plays a role in fostering bureaucratic corruption (Ndikumana, 2006). Civil service salaries are perceived as inferior to those offered in the private sector for individuals possessing equivalent qualifications and experience. Consequently, administrators resort to embezzlement of public funds as a means to compensate for this salary discrepancy.

The second component encompasses the notion of opportunity, encompassing deficiencies within control systems, improper governance practices, and exploitable circumstances. Individuals take advantage of these situations or weaknesses in order to commit fraudulent acts (Kelly & Hartley, 2010). Within public and other institutions, several factors contribute to the ability to perpetrate fraud and related financial crimes. These include negligent employee policies and rule violations, a lack of legal consequences and disciplinary actions, irregular job rotations and auditing processes, as well as ineffective monitoring (Abdullahi & Singleton, 2006; Sauser, 2007; Abdullahi & Mansor, 2018). The third and final component of the fraud triangle theory pertains to rationalization. This element suggests that individuals who engage in unethical behavior first develop a morally acceptable justification for their actions. It functions as a means of justifying immoral conduct that may not necessarily be illegal in nature. Subsequently, the process of rationalization serves to validate unethical conduct according to the criteria established by individuals engaging in fraudulent activities, owing to their deficiency in adhering to personal moral values, flawed reasoning, and other inherent vulnerabilities (Cressey, 1953; Abdullahi et al., 2015; Rae & Subramanian, 2008).

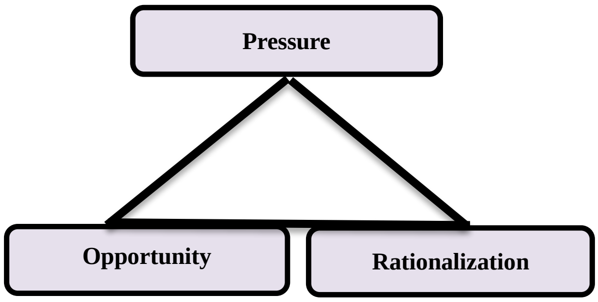

Figure 1. Fraud Triangle

Sources: Wells (2015).

2.3 Causes of Financial Crimes

Financial crime is a threat to both the public and private sectors. Soh (2012) noted that criminal behavior may be seen across all social groups; even wealthy and intelligent people commit crimes. Researchers have examined the elements that contribute to financial crimes (Mohammed, 2012). Experts have developed hypotheses, theories, and ideas to explain the primary causes of financial crimes. These theories include Fraud Triangle Theory (1953), Fraud Scale Theory (1984), Fraud Diamond Theory (2004), and Fraud Pentagon Theory (2011). However, certain key elements must also be considered. When social, environmental, and organizational factors are considered, the underlying causes of financial crimes are better understood (Mohammed, 2012). Several scholars have investigated the components of the fraud triangle theory and their connection with the incidence of fraud. According to Abdullahi and Mansor (2018), the three main elements of fraud triangle theory—pressure, opportunity, and rationalization—have a positive relationship with fraud incidents in the Nigerian public sector.

According to Ruankaew (2013), pressure is one of the factors that might induce fraud and influence those who commit fraud to act unethically. Pressure, either through incentives or punishment, usually influences the way fraudsters commit to thinking and acting in order to realize the profit targets or other greedy needs they demand. This finding from Ruankaew's research supports Lister's argument concerning pressure. Lister (2007) states that pressure is the primary contributing element to fraud and classifies it into three categories: personal, employment stress, and external pressure. In addition, Vona (2008) viewed pressure as both personal and corporate pressure that forces individuals to commit fraud or other financial crimes. Chen and Elder (2007) identified six fundamental types of pressure: transgression of obligations, problems originating from personal issues, business or corporate inversion, position attainment, and relationships between employees. These different types of pressures increase the likelihood of committing fraud (Aidafitri & Arta, 2014; 2009). Fitri et al. (2019) investigated the applicability of the fraud triangle model and found that organizations with detected fraud received higher pressure from financial stability, targets, and regular changes in auditors. Murdock (2008) also contended that pressure can be tied to non-financial, political, social, and monetary factors. Monetary pressure, that is, financial pressure, often drives an employee to decide to commit fraud. Specifically, financial pressure was a factor in nearly 95% of all fraud (Albrecht et al., 2006). Concisely, pressure is considered the first factor that motivates people to commit fraudulent activities, as several studies have presented, such as Mansor and Abdullahi (2015), Diany and Ratmono (2014), Vona (2008), Lister (2007), and Albrecht et al. (2006).

According to Tickner and Button (2021), Schuchter and Levi (2015), and Riemer (1941), opportunities allow perpetrators to breach their trust and confidence. Coleman (1987) characterizes opportunity as a necessary element for fraud and other financial crimes. In general, it may be said that when a legal opportunity becomes harder to find, illegal opportunities typically become more accessible. Some reasons that could promote financial crime include complex organizational structures, a lack of staff or insufficient staff, ineffective audit and internal control systems, bad governance, a lack of awareness, education, and training, a lack of expertise, and a failure to discipline offenders (Schuchter & Levi, 2015; Dellaportas, 2012; Hogan, Rezaee, Riley, & Velury, 2008; Ramamoorti, 2008; Rezaee, 2005; Gobert & Punch, 2003). According to Mansor and Abdullahi (2015); Nor (2019) and Mohamed and Kulmie (2023), a lack of accountability in the public sector and improper tax systems lead to huge financial losses due to the mismanagement of resources. This confirms that corrupt systems lead to inequality in the distribution of resources, which eventually leads to an atmosphere in which the wealthiest keep getting richer while the poor keep getting impoverished. For instance, in Nigeria and Somalia, 70% of the population lives below the poverty line (Kulmie 2023; Mansor & Abdullahi 2015). All of these occur due to improper accountability, transparency, weak control systems, a lack of segregation of duties, weak reporting systems, and inadequate performance evaluations. These elements create an opportunity to provide thieves with a means of accessing and stealing resources. Several studies, such as Kulmie (2023), Iskandar and Mohamed (2014), and Suyanto (2009), found a strong correlation between pressure and financial fraud.

According to Albrecht and Albrecht (2004), "almost every fraudulent activity involves rationalization." Some researchers contend that offenders make a concerted effort to justify their criminal behavior in an effort to make it more acceptable in their community and to lessen the negative emotions of others, such as wrongfulness, harmfulness, and shame, if they are discovered (Murphy, 2012; Goldstraw, 2012; and Alexander & Michael, 2015). Due to the difficulty of reading the culprit's mind, it is challenging to identify rationalization (Cressey, 1953). Hooper and Pornelli (2010) added that fraudsters have a certain mindset that enables them to defend or rationalize their fraudulent behavior. Rationalization is a symptom of an employee's lack of moral character and personal integrity. According to Murphy and Dacin (2011), there are three psychological ways to commit fraud that have their roots in rationalization: inadequate awareness, intuition combined with rationalization, and reasoning. Additionally, Rachmawati and Marsono (2014) demonstrate that opportunity and rationalization variables have an impact on fraud but not on the pressure element.

2.4 Conceptual Framework

This study attempts to identify whether the fraud-triangle components motivate the incidence of financial crimes in Somalia. Fraud triangle components, such as pressure, realization, and opportunity, are considered factors that cause financial crimes. This means that these factors are independent variables, while the incidence of financial crimes is the dependent variable. Similar studies have been conducted in other countries, such as Indonesia, and have found that these elements motivate fraud and other financial crimes. This study adopts a model from Abdullahi and Mansor (2015), as shown below, using the following model to test the theory of the fraud triangle and its link to the occurrence of financial crimes in Somalia.

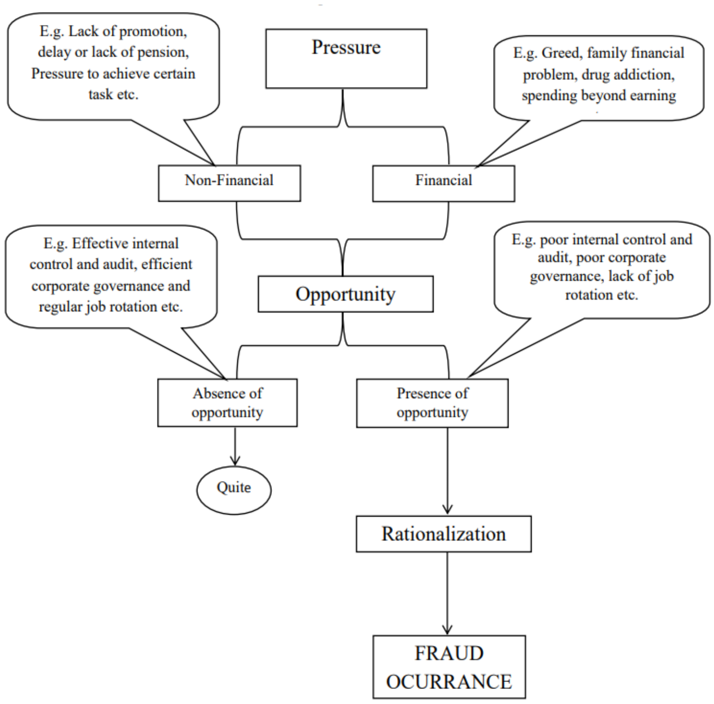

Figure 2. Conceptual Framework

Source: Abdullahi and Mansor (2015).

3. Methodology

This study uses a quantitative-based research design to measure the relationship between fraudulent triangular components and the incidence of financial crimes. The independent variable was the fraud triangle components, while the dependent variable was the incidence of financial crimes. This paper used primary data collected from 200 respondents from the Ministry of Planning, Investment, and Economic Development, the Ministry of Finance, the Ministry of Justice and Constitutional Affairs, and the Central Bank of Somalia by using a questionnaire with a 5-point Likert Scale as a research instrument. Simple random sampling was utilized in this study because it gives every element an equal chance to be chosen without bias. The data collected from these participants was reviewed, examined, and analyzed using the Statistical Package of Social Science to interpret and present the results appropriately.

4. Results and Discussions

4.1 Demographic Information of Respondents

Table 1 illustrates that the male participants constituted 80%, whereas the female participants comprised a significantly smaller number of 20%. This disparity reflects the cultural challenges in Somalia, where there is noticeably low female representation in public institutions. Additionally, the table reveals that individuals between the ages of 20 and 30 accounted for the highest number of respondents at 93, constituting approximately 46.5% of the sample. The second-largest group consisted of respondents aged between 31 and 40, with a total of 76 individuals, making up roughly 38%. Furthermore, individuals falling within the age bracket of 41 to 50 constituted only 19 respondents, with a proportionate percentage of around 9.5%. The age group above 50 showed minimal representation, as it was inhabited by only 12 respondents, or about 6%. This observation aligns with statistical reports indicating that more than three-quarters (75%) of Somalia’s population comprises those under 30 years old. The table also highlights that 85 individuals, comprising 42.5%, possess a bachelor’s degree, while 88 respondents, amounting to 44%, hold a master’s degree. Moreover, there were five individuals among the respondents who possessed a Ph.D., accounting for 2.5% of the total sample. In contrast, only 22 respondents (11%) reported having other qualifications. Furthermore, the table indicates the level of professional experience among the participants. A total of 32 respondents (16%) had less than two years of experience, while 60 individuals (30%) had accumulated three to four years of work experience. Additionally, there were another 62 participants, representing approximately 31%, who claimed to have acquired five to seven years’ worth of professional experience. Finally, those with more than seven years of experience accounted for 46 respondents, or approximately 23% of the survey sample.

Table 1. Demographic information

		Frequency	Valid percent
Gender	Male	160	80
	Female	40	20
	Total	200	100
Age	20-30	93	46.5
	31-40	76	38
	41-50	19	9.5
	Above 50	12	6
	Total	200	100
Educational Level	Bachelor	85	42.5
	Master	88	44
	PhD	5	2.5
	Others	22	11
	Total	200	100
Levels of Experience	Less than 2 years	32	16
	3-4 years	60	30
	5-7 years	62	31
	Above 7 years	46	23
	Total	200	100

4.2 Determinants of Financial Crimes

The first objective of this study was to examine whether pressure, as a component of the fraud triangle theory, contributes to the occurrence of financial crimes in Somalia. In this study, 200 respondents responded to the questionnaire. The results reveal a moderately positive correlation between pressure and the occurrence of financial crimes ($r = .486$, $p < 0.05$) (Table 2). Pressure, as a component of fraud in triangle theory, represents financial and nonfinancial pressures. Examples of these pressures include family financial pressure, personal debt, living beyond your means, excessive desire for wealth, drug addiction, and gambling habits. This study finds that these elements contribute to the incidence of financial crimes. Umar et al. (2017) stated that pressure affects individual behavior. Previous studies reveal a link between pressure, fraud, and other financial crimes. In an empirical study of 13 corporate fraudsters in Austria and Switzerland, Schuchter and Levi (2016) found that the respondents' perceptions of the pressures they felt were significant. According to Febriani et al. (2022), pressure as a stimulus affects financial statement fraud. Several studies have found that pressure has a positive relationship (Anindya & Adhariani, 2019).

Table 2. Correlations

		Pressure	Occurrence of Financial Crimes
Pressure	Pearson Correlation	1	.486**
	Sig. (2-tailed)		.000
	N	200	200
Occurrence of Financial Crimes	Pearson Correlation	.486**	1
	Sig. (2-tailed)	.000	
	N	200	200

Note. **. Correlation is significant at the 0.01 level (2-tailed).

Additionally, this study analyzes whether opportunities contribute to the occurrence of financial crimes. The results in Table 2 show that opportunity and the incidence of financial crimes have a moderately positive relationship ($r = 0.526$, $p < 0.05$). The opportunity element stands for many factors, such as ineffective governance, an undefined organizational structure, weak internal control systems, irregular audit programs, and improper duty segregation. Dellaportas (2013) investigated opportunity and motivation, and the results suggested that offenders use their positions to deceive others. Several studies have stated that opportunity is a fundamental component that increases the level of incidence (Kulmie, 2023; Hillison et al., 1999). In particular, internal control weaknesses, poor supervision, and improper documentation processes, as indicted by Zakaria et al. (2016), provide opportunities to steal assets, and when opportunities increase, illegal malpractices also increase.

Table 3. Correlations

		Opportunity	Occurrence of Financial Crimes
Opportunity	Pearson Correlation	1	.526**
	Sig. (2-tailed)		.000
	N	200	200
Occurrence of Financial Crimes	Pearson Correlation	.526**	1
	Sig. (2-tailed)	.000	
	N	200	200

Note. **. Correlation is significant at the 0.01 level (2-tailed).

Finally, the researcher assessed how people's attitudes influenced their behavior. Rationalization is an individual's justification for committing fraud and other financial crimes. As Table 3 indicates, rationalization has a moderate relationship with the incidence of financial crimes ($r = 0.454$, $p < 0.05$). Jackson et al. (2010) argue that fraud will only exist if people are able to justify their dishonest actions as appropriate, even in the presence of pressure and opportunity. Similarly, previous studies, including Sihombing and Rahardjo (2014), Murphy and Dacin (2011), Albrecht et al. (2007), and Stalebrink and Sacco (2007), consider rationalization as a notable contributor to financial crime incidence as well as an integral element in fraud prevention measures.

Table 4. Correlations

		Rationalization	Occurrence of Financial Crimes
Rationalization	Pearson Correlation	1	.454**
	Sig. (2-tailed)		.000
	N	200	200
Occurrence of Financial Crimes	Pearson Correlation	.454**	1
	Sig. (2-tailed)	.000	
	N	200	200

Note. **. Correlation is significant at the 0.01 level (2-tailed).

5. Conclusion and Recommendation

The topic of financial crimes is hotly contested throughout the world, especially in impoverished and emerging nations, and is receiving a lot of attention globally. Growing concerns about financial crime and its effects on the economy necessitate significant adjustments and initiatives to combat fraud. This study attempted to examine whether elements of the fraud triangle theory (pressure, opportunity, and rationalization) motivate the incidence of financial crimes. These components were examined, and the results showed that without these components, fraudulent behavior was not possible. This study finds opportunities to be the main motivator of financial crimes in Somalia. This study is significant for policymakers and public administrators to understand the factors that could lead to fraudulent behavior in the public sector and ways to prevent it. This article suggests that the Somali government should implement Salary Scale Reform (SSR) to raise civil servants' pay and offer fringe benefits to raise workers' living standards. The study also suggests establishing robust control mechanisms, regular auditing practices, effective accountability and transparency systems, and fostering a positive workplace environment. Since opportunity creates thieves, the government should eliminate all types of opportunities to combat this catastrophic crime. The government could also provide training programs to improve employees' moral character and help them understand the damaging effects that fraud has on both their behavior and the nation's economy.

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