

2020

## Reducing the Frequency and Effects of Fraudulent Activities in Community Action Agencies

Marvin L J Blye  
*Walden University*

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# Walden University

College of Management and Technology

This is to certify that the doctoral study by

Marvin L. J. Blye

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Walden University  
2020

Abstract

Reducing the Frequency and Effects of Fraudulent Activities in Community Action  
Agencies

by

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MBA, Wilmington University, 1993

BS, University of Maryland Eastern Shore, 1988

Doctoral Study Submitted in Partial Fulfillment  
of the Requirements for the Degree of  
Doctor of Business Administration

Walden University

November 2020

## Abstract

In the United States, nonprofit organization leaders estimate that \$40 billion of revenue is lost every year because of financial scandals and fraudulent activities. Fraud negatively affects organizational functioning, service delivery, and board governance. Nonprofit leaders who fail to prevent fraud increase the chance of their organization's failure. Grounded in Cressey's fraud triangle theory, the purpose of this qualitative multiple case study was to explore strategies nonprofit community action agency (CAA) executive leaders use to reduce fraudulent financial activities. The participants comprised 5 executive CAA nonprofit leaders located in Maryland who effectively used strategies to reduce fraudulent financial behaviors in their organizations. Data were collected from semistructured interviews, analysis of organizations' internal documents, and official documentation review. Yin's 5-stage analysis was used to analyze the data. Three themes emerged: ethics and regulatory compliance, transformational leadership, and managerial skills. A key recommendation is for CAA executive nonprofit leaders to foster individualized consideration by mentoring leaders to comply with ethics and regulatory compliances and incorporate strategies to mitigating fraudulent behaviors, which increases organization performance, stakeholders' motivation, and organization sustainability. The implications for positive social change include the potential to increase donors' contributions and promote social programs and activities such as Head Start, tax return preparations, and adult and children's literacy in the local communities.

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## Dedication

This study is with honorable memory and dedication to my father and mother, Joseph and Annabell Blye, the blessings that God chose to deliver and present me to this world. My parents were God's vision and purpose to fulfill His pathway for my life's process. I hope that my journey and life's story is motivating and gives others the dream to pursue their goals. I am grateful to God, His preserving my life, and blessed to have reached this amazing accomplishment and success. My parents' spirits are driving my life and providing me the strength to always be thankful and reach beyond my present state. I miss and love you both so much.

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## Section 1: Foundation of the Study

Reducing or mitigating fraud is essential to promote the longevity of an organization (Ge, Koester, & McVay, 2017). A regular audit or control of accounting and financial activities can influence an organization's growth or performance for a long-term activity (Gordian & Evers, 2017). The effectiveness of controllers or auditors in an organization is a critical factor that managers can rely on to meet the company's goals and accomplish the mission statement of the organization (Ge et al., 2017). In nonprofit organizations, the role of managers should also be meeting and performing services or goods to increase customers' satisfaction or donors' contributions to promote the business. But fraud negatively affects business performance. Integrating the concepts of the fraud triangle may contribute to increase transparency and provide solutions to mitigate fraud. Exploring and analyzing the impacts of fraud in nonprofit organizations could lead to improvements in the relationship between nonprofit managers, government agencies leaders, and private or official contributors.

### **Background of the Problem**

Nonprofit business scandals and fraudulent acts of leaders motivated by perceived perception and actual economic conditions have negatively affected organizational functioning, services delivery, and board governance (Zona, Minoja, & Coda, 2013). In a 2016 survey, the Association of Certified Fraud Examiners (ACFE) Report to the Nations on Occupational Fraud and Abuse estimated that nonprofit organizations account for 10% of all occupational fraud cases every year to fraudulent financial acts, with an average cost per incident of \$100,000 (ACFE, 2016). Skimming cash, purchasing schemes, and

financial statement fraud are types of fraud that nonprofit managers must detect and prevent to secure the organization's assets (Zack & DeArmond, 2015). From 2008 to 2012, over 1,000 nonprofit organizations' leaders in the United States discovered a significant diversion of assets attributed to theft, investment fraud, embezzlement, and other unauthorized uses of funds (Stephens & Flaherty, 2013). Further, covering up a fraud in nonprofit organizations is a crime that may lead to losing millions of dollars in future donations to support organizations' activities (Stephens & Flaherty, 2013). In my study, I explored strategies to reduce fraudulent financial activities in nonprofit community action agencies.

### **Problem Statement**

Nonprofit business scandals and fraudulent acts by leaders negatively affect organizational functioning, services delivery, and board governance (Zona, Minoja, & Coda, 2013). Nonprofit organization fraud cases increased by 20% in the United States from 2010 to 2015, which amounted to about \$40 billion of loss each year (Kummer, Singh, & Best, 2015). The general business problem was nonprofit leaders who commit fraudulent financial activities affect organizational sustainability. The specific business problem was some nonprofit community action agency (CAA) executive leaders lack strategies to reduce fraudulent financial activities.

### **Purpose Statement**

The purpose of this qualitative multiple case study was to explore the strategies that some nonprofit CAA executive leaders use to reduce fraudulent financial activities. The population for this study included executive leaders of four nonprofit community

action agencies in Maryland who have implemented strategies that have successfully reduced fraudulent financial activities. The contributions to social change are aiding executive leaders in developing processes and procedures that advocate for better policies and providing strategies to reduce fraudulent financial activities, promote corporate responsibility, and influence the performance and positive outcomes of programs. The contributions for social change can support the success of programs such as Head Start, tax preparation, and adults' and children's education in local communities.

### **Nature of the Study**

I used the qualitative method for this study. The qualitative method is the systematic inquiry into a social phenomenon enabling researchers to focus on events and outcomes of those events from the perspective of those involved (Dasgupta, 2015; Teherani, Martimianakis, Stenfors-Hayes, Wadhwa, & Varpio, 2015). The qualitative method was appropriate because the purpose of this study was to explore the strategies that leaders in nonprofit CAAs use to reduce fraudulent financial activities. Using the quantitative method involves hypotheses testing, and the mixed method involves aspects of the qualitative and quantitative methodology (Dasgupta, 2015; Kruth, 2015). I did not test hypotheses; therefore, neither the quantitative nor the mixed method was appropriate for this study.

In qualitative studies, researchers use case study, phenomenology, narrative, or ethnography. Researchers use a case study design to understand a real-world case when the phenomenon and the context are not evident (Yin, 2017). I selected the multiple case study design to explore strategies that nonprofit CAA executive leaders used to reduce

fraudulent financial activities. Researchers use a multiple case study design to explore experiences using a qualitative methodology to get an in-depth understanding of phenomena (Khan, 2014). In contrast, researchers use phenomenology to seek and understand participants lived social experiences (Bevan, 2014). Narrative researchers elicit participants' stories of phenomena, and in an ethnography design, researchers explore the language, beliefs, and behaviors of participants (Paschen & Ison, 2014). I did not elicit stories, explore cultural group, or explore lived experiences of participants; therefore, narratives, ethnography, and phenomenology were not appropriate for this study.

### **Research Question**

What strategies do nonprofit CAA executive leaders use to reduce fraudulent financial activities?

### **Interview Questions**

1. What strategies have you used to reduce fraudulent financial activities in your organization?
2. How do you determine if your strategies used to reduce fraudulent financial activities are working?
3. What strategies were the least effective to reduce fraudulent financial activities?
4. What, if any, strategies do you use to circumvent the pressure to commit a crime in your organization?
5. What, if any, strategies do you use to circumvent the opportunity to commit a crime in your organization?



6. What, if any, strategies do you use to circumvent the rationalization to commit a crime in your organization?
7. What other information can you add about your strategies to reduce fraudulent financial activities?

### **Conceptual Framework**

The conceptual framework for this study is the fraud triangle. Cressey (1953) developed the fraud triangle in 1950 as an approach to understand the unethical behaviors of individuals who commit fraudulent crimes. The key tenets of the fraud triangle consist of opportunity, pressure, and rationalization (Cressey, 1953). Most individuals require some form of pressure to commit a criminal act.

Murphy and Dacin (2011) further expanded Cressey's fraud triangle, confirming that the characteristics of opportunity, attitude, and individual rationalization are likely predictors of fraudulent financial acts. Companies that focus on preventing the key factors that enable fraud may mitigate the creation of a fraud culture. Universally, unethical acts of individuals occur when all three elements of the triangle exist (Albrecht, Turnbull, Zhang, & Skousen, 2010). Consequently, I expected that the framework from Cressey and the expanded theory from Murphy and Dacin were a reasonable foundation for understanding strategies that some nonprofit CAA executive leaders use to reduce fraudulent financial activities. The fraud triangle was the foundation for the development of the research protocol.

## Operational Definitions

*Community action agencies (CAAs):* Nonprofit private and public organizations established under the Economic Opportunity Act of 1964 to fight America's War on Poverty (National Association for State Community Action Programs, 2014).

*Ethical deficiency:* The inability to distinguish between acceptable and unacceptable behaviors that mitigate and thwart fraudulent activities (Harriss & Atkinson, 2015).

*Fraudulent financial activity:* The ability to defraud individuals through false presentations of financial data in reports that misrepresent facts (Internal Revenue Service [IRS], 2015).

*Occupational fraud and abuse:* The use of one's occupation for personal enrichment through the deliberate misuse and misappropriation of organizational resources and assets (ACFE, 2016).

*Perceived opportunity:* The weakness and ability to exploit a situation to one's advantage (Abdullahi & Mansor, 2015).

*Perceived pressure:* The motivation that leads to committing unethical behaviors (Abdullahi & Mansor, 2015).

*Perceived rationalization:* The attempt to explain and justify a behavior with logical reasoning (Abdullahi & Mansor, 2015).

## **Assumptions, Limitations, and Delimitations**

### **Assumptions**

Assumptions are statements that researchers presume to be accurate, often only temporarily or for a specific purpose, such as building a theory (Parker, 2014). I assumed that fraud prevails in the nonprofit sector of America and that ethical behavior could prevent or limit fraud in organizations. Another assumption I made was that leaders of CAAs will report their strategies within their organizations that reduced fraudulent financial behaviors and activities within their CAA. I also explored fraudulent financial activities in CAAs with the assumption that the tenets of the fraud triangle theory could mitigate the behaviors of the participants in the organizations. Further, I assumed the participants had the knowledge to answer the research questions in an open, honest, and candid manner. I also assumed that the participants of the study would be executive leaders with the interest of adding to the body of knowledge of strategies that reduced fraudulent financial activities.

### **Limitations**

Researchers limit their studies for internal and external validity of the research (Holloway & Galvin, 2017). Limitations are matters and occurrences that arise in a study beyond the researcher's control (Yin, 2017). Limitations and generalizations can affect the results and can affect the conclusions of the study. A limitation also refers to limiting conditions or restrictive weaknesses in a study (Locke, Spirduso, & Silverman, 2016). This study included three principal limitations. The first limitation was the number of interview participants in the study that could provide a lack of perspectives on the topic

of fraudulent financial activities. The second limitation was the design of the case study selected to conduct the study, as the outcomes can be predictable (Yin, 2017). The third limitation was the conducting of interviews with participants with the responsibility of organizational administration and the implementation of internal control measures to provide strategies to reduce fraudulent financial activities in CAAs. Finally, the findings of this study might not be interchangeable to other states of CAAs and might contribute to reduce fraudulent financial activities.

### **Delimitations**

Delimitations of a study are factors that arise from limitations in the scope of the study and by the conscious exclusion and inclusion of decisions made during the development of the study (Marshall & Rossman, 2016; Simon & Goes, 2013).

Delimitations are generalizations of populations and define the limits inherent in a study (Locke et al., 2016). Delimitations of the study are (a) the problem of the study, (b) study location, and (c) sample population. I elected to explore the strategies of nonprofit CAAs use to reduce fraudulent financial activities. The qualitative multiple case study was focused on the leaders of nonprofit CAAs regarding employing strategies to reduce fraudulent financial activities. The study location was limited to Maryland and was not generalized to other CAAs in other states. The study population was limited to the leaders of the CAAs and the scope of information to explore strategies to reduce fraudulent financial activities.

### **Significance of the Study**

In this qualitative multiple case study, I focused on the exploration of strategies that executive leaders used to reduce the frequency and effects of fraudulent financial activities in nonprofit community action agencies. The results of this study could help leaders understand how to prevent or mitigate fraudulent financial activities and employ managerial control systems to benefit the sustainability of businesses or nonprofit organizations and the communities in which they serve.

### **Contribution to Business Practice**

Business leaders can provide leaders with strategies to prevent fraudulent financial activities. In addition, other nonprofit organizations may incorporate shared strategies to prevent or mitigate the effects of fraudulent financial activities. Additionally, executive leaders might have the ability to implement business strategies of internal controls, systems changes, and checks and balances in operations that provide oversight and enhancement of service deliverables while avoiding the loss of reputation and derivative reductions in profits from fraudulent activities.

### **Implications for Social Change**

The implications of social change from the results of this study include helping other nonprofit executive leaders in developing processes and procedures that advocate for better policies, strategies to reduce fraudulent financial activities, promoting corporate responsibility, and influencing the performance and positive outcomes of business activities. The results may also help affect the success of programs such as Head Start, tax returns preparation, adults' and children's education in local communities, and other

services on which citizens in need depend. Leaders who catalyze the development and sustainability of educational programs promote employees, families, and community members' satisfaction (Lueg & Radlach, 2016).

### **A Review of the Professional and Academic Literature**

Researchers conduct literature reviews using multiple sources to show evidence about the topic and the research question. The literature review is an in-depth analysis that reveals what previous analysts argued about the topic and gives new ideas to approach the current business problem (Baker, 2016; Winchester & Salji, 2016). The effects of fraud and crime in nonprofit organizations are damaging to organizational programs (Adelstein & Clegg, 2016). Failure to implement fraud mitigation strategies and internal control measures may contribute to organizational failure or collapse. It is critical for nonprofit leaders to understand the effects of fraud and its risk to organizational programs (Haas, Van Craen, Skogan, & Fleitas, 2015; Rendon & Rendon, 2015). Some authors have argued that the opportunity for a person or people to commit fraud results in a lack of supervision or internal controls of a company (Astuti, Zuhrohtun, & Kusharyanti, 2015; Rasha & Andrew, 2012; Schuchter & Levi, 2016). Thus, finding appropriate strategies to mitigate fraud in nonprofit organizations would help nonprofit leaders to increase performance. The fraud triangle theory was a useful framework for organization managers to analyze vulnerability, detect financial fraud, and mitigate unethical behaviors (Cressey, 1950; Harrison, 2018; Kassem & Higson, 2012). The integration of other academic sources into the fraud triangle theory was necessary to manage, analyze, and mitigate fraud.

Researchers should identify themes and subthemes to reveal what other scholars explored to give new ideas to resolve the current business problem (Callahan, 2014). In the following literature review, I examined the use of the fraud triangle theory as a primary conceptual framework to mitigate fraud and promote productivity. Additional analysis included a synthesis of the contrasting theory of ethical concepts, organizational leader's strategies to mitigate fraud and the implementation of control measures to prevent misconduct practices in nonprofit organizations.

### **Organization of the Review**

The content outlined in the literature review is valuable for exploring strategies nonprofit CAA leaders used to understand the effects of fraud on business performance, increase transparency, and mitigate fraud in their organizations. The literature review is organized around search strategies, the percentage of articles used, applications to the business problem, and analysis of Cressey's fraud triangle theory. The literature also provides an overview of the contrasting theory of ethical concepts that some nonprofit community action leaders have used as strategies to reduce fraudulent financial activities.

### **Search Strategy**

I used a variety of sources to research the topics of interest. The information in the literature review started with an identification of peer-reviewed articles, journals, dissertations, books, and internet resources relevant to the topic of this study. I explored resources directly from organizations such as the Association of Fraud Examiners, U.S. non-governmental organizations, and the CAAs' archives and records system. I also used the Google Scholar search engine and the Walden University library online system. The

Walden University library online system was the primary source of the literature review, using keyword searches in the following databases: (a) Business source complete (b) ProQuest, (c) SAGE, and (d) Science direct. I used the following keywords to identify my sources: *Fraud triangle theory, ethical theory, nonprofits, crime, sustainability, board governance, strategies and controls, and corporate social responsibility.*

### **Summary of Peer-Reviewed Articles**

The literature review included an analysis and synthesis of Cressey's (1950) fraud triangle theory. As required by Walden University, I used Ulrich's Periodical Directory to verify scholar peer-reviewed journal articles and ensure the reliability of sources (Walden University, 2016). The literature review had 176 sources, which includes 95% (167) peer-reviewed articles. The total of my sources represented 85% of articles within 2015 and 2020. Table 1 includes the details of references explored in the literature review.

Table 1

<i>Details of References Used in the Literature Review</i>		
Reference	Percentage	Total
Peer-reviewed articles	95%	167
Not peer-reviewed	5%	9
Less than 5 years (2015-2020)	85%	149
More than 5 Years (< 2015)	15%	27

### **Application to the Applied Business Problem**

The purpose of this qualitative multiple case study was to explore strategies that some nonprofit community agency executive leaders used to reduce fraudulent financial activities. Nonprofit business scandals and fraudulent acts negatively affect organizations' reputation, success, and may lead to a tremendous financial crisis (Zona et



al., 2013). My analysis and synthesis of the literature review outlined Cressey's (1953) fraud triangle theory as a strategic response to financial fraud in nonprofit community action agencies, managerial control systems, sustainability, and corporate social responsibilities of nonprofit organizations.

### **Community Action Agencies History and Conceptual Framework**

In the United States, the assassination of President John F. Kennedy sparked legislation to address the war on poverty through the Economic Opportunity Act of 1964. President Lyndon B. Johnson, through legislation, tried to settle the nation and regain public trust. President Johnson, through the 1964 act, established training, educational, and service programs for communities and job corps throughout the country to reduce poverty and improve life in the community (Brauer, 1982). The 1964 act was critical and led to the creation of the Community Action Program that oversees the local CAAs in the United States and its territories for the welfare of the local communities.

Managers in the CAAs help to fight poverty by empowering poor Americans through programs to counter poverty. CAAs' contributions to sustainable programs directly correlate to organizational leaders and their implementation of internal controls to mitigate fraud (Goetz, 2017). CAA leaders in their strengthening of program compliance, fiscal, operational accountabilities, board governance and oversight, and processes help to identify fraudulent behaviors and implement organizational controls that thwart fraud within agencies. For my study, I used Cressey's (1953) fraud triangle theory to explore the role of the Head Start, and tax programs, strategies leaders in community action agencies may use to reduce fraudulent acts in nonprofit organizations.

Cressey's fraud triangle theory was the lens to understand the pressure, opportunities, and rationalization for nonprofit agents to commit fraud.

### **Community Action Agencies Programs**

**Head Start program.** The Head Start program is a nonprofit organization that serves children from birth to 3 years in response to research evidence highlighting that the first years of a child's life are essential to their long-term growth and brain development. The role of the Head Start program is to prepare children with the basics of social and emotional development, cognition, language and literacy, language and communication, mathematics development, and scientific reasoning (McClelland & Cameron, 2019). The Head Start program is among the most significant educational nonprofit organizational structures that prepare children to enter school. The Head Start program is a multibillion-dollar nonprofit organization that serves over 899,000 children and families throughout the United Nations (Head Start Information, 2017). Head Start programs are significantly contributing to good children's educational systems.

Promoting earlier children's education development is critical to motivate youth to engage in school and increase knowledge. Based on research on determinants and implications for adverse linear cognitive development growth outcomes in adolescence from low- and middle-income countries in their early years, psychosocial development among preschool children's outcomes need additional educational resources and programs to catch up in their later years (Desmond & Casale, 2017). Programs within CAAs must have the curriculum components that address cognitive-developmental learning for children and collect enough financial means to provide early learners with a

good education (Schonert-Recihi et al., 2015). CAA leaders must synchronize with the school systems for children's education and promote a positive social change (Tefera, 2018). Leaders of CAAs must promote trust among stakeholders in the program by having competent managers and improving positive behaviors to provide comprehensive resources for the benefit of children's educational programs.

**Tax program.** Understanding and complying with tax regulations may be challenging for individuals and business managers (Bird & Davis-Nozemack, 2018). But nonprofit organization leaders can assist people to comply with government regulations (Siliunas, Small, & Wallerstein, 2019). For tax assistance, CAAs leaders have implemented Volunteer Income Tax Assistance to offer free income tax preparation to people who make annual revenue less than \$56,000, people with disabilities, limited English speakers, and refugees who need assistance (Head Start Information, 2017). For businesses, managers must promote their activities in complying with federal and state tax regulations (Goss, Barnes, & Rose, 2019). Taxes collected and paid timely and equitably by business managers constitute a principal source of revenue for the government and contribute to social projects such as roads, schools, hospitals, salaries of government employees, and social security (Akcura, 2015; Kioko & Zhang, 2019). Therefore, complying with tax regulation is one of the most important regulations that may determine the efficiency and longevity of any organization (Jiang, Aldewereld, Dignum, Wang, & Baida, 2015; Madura, 2015).

There are two different groups of taxes: direct and indirect (Davis, Guenther, Krull, & Williams, 2015). Direct taxes are taxes that the government directly collects

through individuals and organizations, and indirect taxes are taxes that some intermediary agencies collect on goods or services sold for the government (Davis et al., 2015). For example, taxes from import and export of goods and services are indirect taxes and constitute another vital source of government revenue (Zhuk, 2018).

Further, one of the tax regulations for nonprofit organizations requires the submission of the annual 990 tax returns forms before April 15 of each year to avoid late filing fees (Hopper, 2017; Svensson & Moorman, 2019). Based on the Statement of Financial Accounting Standards No. 116 on nonprofit organizations' performance, nonprofit organization leaders should recognize and report organizational assets and revenues annually through their 990-tax return reporting to increase the confidence of stakeholders (Archambeault, Webber, & Greenlee, 2015). Thus, it is critical for both profit and nonprofit business leaders to recruit individuals who have tax skills and business experience to mitigate management risk of noncompliance (Cabral, Mahoney, McGahan, & Potoski, 2019). However, future research is needed about the implication of taxes in business profitability or productivity in the current business context affected by the multiple effects of globalization.

Based on the fraud triangle theory, individuals and organizations must declare, report, and pay their taxes fairly to avoid penalization. Complying with tax policies contributes to prevent actions like penalization by government and fraud by employees or managers (Oishi, Kushlev, & Schimmack, 2018). Further, complying with federal and state tax regulations, reporting requirements, and policies are crucial strategies for nonprofit organizations managers to reach their mission and goals with success (Okpeyo,

Musah, & Gakpetor, 2019). As stated by Cressey (1953), the effects of fraud may have a positive or negative effect on the business or social environment. The lack of punishment to tax fraudsters ruin the values of our culture in the communities (Okpeyo et al., 2019), but fraudsters have developed new strategies to operate online or using electronic devices to overcome the laws (Black, Christensen, Kiosse & Steffen, 2017; Celik, 2016).

Therefore, promoting business expansion and profit, nonprofit managers together with government leaders must promote ethical values at all levels of organization structures (Yeh & Chen, 2019). It is also the federal and state government's mission to punish fraud activists as an example of good morality and ethics.

### **Critical Analysis of Fraud Triangle Theory**

In 1950, Cressey defined the fraud triangle theory as a framework designed to explain the reasons why employees commit fraud in organizations. The key tenets of the fraud triangle consist of opportunity, pressure, and rationalization (Cressey, 1953). The first factor in the fraud triangle theory is the pressure related to the motivation that leads to acting unethically (Abdullahi & Mansor, 2015). Every fraud perpetrator faces some burden to commit unethical behavior for many reasons (Mansor, 2015). For example, ethical knowledge can moderate the relationship between pressure and organizational fraud because ethics has a direct and indirect influence on work engagement and organizational misbehavior (Mansor, 2015). Individuals usually rationalize their decisions to behave fraudulently or unethically by using terminology that expresses different ethical theories such as utilitarianism (Abdullahi & Mansor, 2015). In a similar view, the concept of rationalization, which is the third element of the fraud triangle, leads

to unethical behavior (Kassem & Higson, 2012). Rationalization is the validation of unethical behavior and may lead to criminal activity (Kassem & Higson, 2012). If an individual cannot justify immoral actions, it is unlikely that he or she will engage in fraud (Abdullahi & Mansor, 2015; Greenwood, 2016).

Because of the complexity of fraud phenomenon, some scholar analysts have different views about fraud conception (Free, 2015). For example, Svatos (2017) defined fraud as a criminal act that affects the entire community. Poor management controls and regulations may encourage individuals to engage in fraud by misstating financial transactions, which can derail most administrations (Abdullahi & Mansor, 2015; Astuti, Zuhrohtun, & Kusharyanti, 2015; Carver, Klein, & Gisting, 2015; Sorunke, 2016). Previous researchers have also explained the act of providing intentionally false information to stakeholders in the organization as a deceitful or fraudulent behavior and encouraged managers to increase transparency and audits (Church, Jenkins, & Stanley, 2018; Houlbrook, 2011; Karcz & Papadakis, 2011). Much work remains to analyze and understand the true nature of fraud in profit and nonprofit organizations (Mukherjee, 2016).

Additionally, individuals may commit fraud at any time and in any organization. The relationships and transactions in the marketplace should be equitable, just, and fair; nevertheless, several individuals and businesses have violated these traits leading to immoral behaviors (Komarova Loureiro et al., 2016). Though fraud is harmful to business performance, fraud has become a significant business activity in the current business environment (Free & Murphy, 2015). Researchers have noted that one of most

significant problems to the world's economy had been the lack of efficient organizational controls and transparency that has led to corrupt behaviors surrounding the cases such as corporate financial scandals (Abdullahi & Mansor, 2015; Free, 2015; Muhtar, Sutaryo, & Sriyanto, 2018). The most notable cases of fraud came from companies like Enron, WorldCom, and Tyco, and individuals like Bernie Madoff and Martha Stewart (Abdullahi & Mansor, 2015; Komarova Loureiro et al., 2016; Lokanan, 2015).

The motivation to commit fraud can arise from various sources. Based on the fraud triangle theory, pressure, opportunity, and rationalization are significant factors for individuals to commit fraudulent crimes (Cressey, 1950). For instance, employees' ethical values are significant to their actions on opportunity and rationalization to commit fraud (Said, Alam, Ramli, & Rafidi, 2017). Several authors have also argued that for fraud to take place in an organization, the pressure, opportunity, and rationalization must be present simultaneously (Abdullahi & Mansor, 2015; Astuti et al., 2015; Carver et al., 2015; Komarova Loureiro et al., 2016; Lokanan, 2015; Roden, Cox, & Kim, 2016; Said et al., 2017). Nonprofit leaders should analyze and fully understand the causes of employees to engage in financial fraud and find strategies to mitigate fraud for organizational performance. The indications of fraudulent activities may result in the short or long-term lack of liquidity or customer deception (Hsu, Wiklund, & Cotton, 2017; MacLennan, Piña, Hafford, & Moran, 2016).\

To address fraud, policymakers must consider the rationale and automatic contributors to help curve these behaviors (Komarova Loureiro et al., 2016). Additionally, effective leaders should motivate employees to overcome their self-interest

for the benefit of the organization (Sun & Wang, 2016). It is also essential for nonprofit leaders to understand that they are not immune to unethical behaviors, and fraudulent activities could pose a significant risk to an organization's finance and culture (Mlambo, Mubecua, Mpanza, & Mlambo, 2019). But financial resources are essential for nonprofit organizations to sustain social programs in the communities (Archibald, Daniels, & Sinclair, 2017); therefore, understanding the causes and effects of these unethical behaviors may significantly help nonprofit leaders when such acts occur (Guest, 2017; Jakhu & Malik, 2017).

**Pressure.** Individual pressure is an influence on individuals to engage in fraudulent activities, which can cause financial problems to the organization (Mansor, 2015). Using an empirical study and psychoanalysis method to distinguish perceptions and ideas, Arlow (2018) found that awareness is critical to control internal and external feelings to commit fraudulent behaviors. On the other hand, Pamela, Murphy, and Free (2016) used a survey to identify how an instrumental organization climate affects fraud. Pamela et al. found that 39 % of respondents admitted committing fraud. Pamela et al. concluded that the pressure on individuals does not need to make sense to outside observers, but it does need to be present. In the case of financial fraud, usually, a temporary situation arises where there is a chance to commit fraud without a high chance of prosecution. Johanson and Carey (2016) argued that financial problems are not the only reasons individuals commit fraud. Per Johanson and Carey (2016), some individuals engage in fraudulent activities for many reasons, such as the desire to buy expensive cars, houses, or clothes. Dellaportas (2013), Neu, Everett, and Rahaman (2013) also identified



work-related pressure, the pressure associated with gambling and drug addiction, and pressure associated with individuals as non-financial pressure factors that lead individuals to engage in unethical behaviors. Lokanan (2015) explored the assertion of the fraud triangle as a critical tool to mitigate fraud in the workplace. The author found that fraud is a complex phenomenon that involves workplace satisfaction and social inequities. Business managers or leaders should be aware of implementing ethical values and strategies to see fraud as an act of revenge against their employers.

Non-shareable financial pressures consist of financial stress experienced by an individual. Workers' dissatisfaction and perceived inequities are the main predictors that motivate and contribute to work-related non-sharable financial pressures and fraudulent acts in the workplace (Pwc, 2014). Cressey (1953) opined that when someone in a position of trust violates that trust to address non-sharable financial pressures, the perceived opportunity to commit fraud arises. Lokanan (2015) explained the fraud triangle as a useful framework to mitigate fraudulent acts and added that individuals might commit fraud because of non-shareable financial pressure. To Lokanan, when individuals feel the strain, they tend to contravene the law to solve their problems. Nonprofit leaders should understand the nature of non-financial pressure that their employees may face to mitigate the effects of fraudulent acts (Burnes et al., 2017). Based on the fraud triangle theory, despite the pressure an individual may or may not face, the risk of committing financial fraud is always permanent unless there is no opportunity (Drabkova, 2018).

**Opportunity.** An opportunity to commit a crime reveals that there are gaps of ineffective controls and a governance system that allows an individual to commit organizational fraud. Neu, Everett, and Rahaman (2013) analyzed the nature and role of accounting practices in mitigating fraudulent practices and found that skillful use of accounting and social interactions enable corruption. The authors also argued that the opportunity to engage in fraud increases as the organization's control structure weakens, its corporate governance becomes less effective, and the quality of its audit functions deteriorates. Similarly, some authors argued that the opportunity for an individual or group of individuals to commit fraud is often due to the lack of supervision or regular internal controls of the company (Arshad, Razali, Bakar, 2015; Astuti, Zuhrohtun, & Kusharyanti, 2015). The lack of internal controls promotes an atmosphere that may motivate, create, or present an opportunity to commit a crime. When internal controls are weak or if there is a lack of ineffective board governance, opportunities to commit fraudulent acts increase (Jaroslaw, 2016).

Organizational management discussion and analysis reports are internal controls and archival documents that distinguish between fraudulent and truthful reports (Purda & Skillicorn, 2015). Based on the scandal from the early 2000s from organizations such as Tyco, Enron, and World Com, the United States Congress enacted the Sarbanes-Oxley Act of 2002 in order to tighten the regulations on internal accounting practices and increase transparency in financial transactions of companies (Black et al., 2017; Camfferman & Wielhouwer, 2019). Gordian and Evers (2017) argued in their empirical study that organizational culture depends on managers' abilities to implement controls

and found that the adverse effects of fraud affect the organization's longevity.

Accounting control systems and evaluation mechanisms should be managerial tools that contribute to sound decision-making, strategic planning, and implementation (Alferjany, Salama, Amuna, Shobaki, & Naser, 2018). Per Leitner and Wall (2015), nonprofit organization leaders or managers must review the internal control systems to sustain transparency and promote internal controls to detect fraud, which may not be visible in regular business activities.

**Rationalization.** Rationalization increases the likelihood to commit fraud.

N'Guilla-Sow, Basiruddin, Abdul-Rasid, & Husin (2018) used a sample of 126 Malaysian small and middle-sized enterprises to understand fraud schemes. Based on the fraud theory, the authors found that rationalization played a critical role in the mindset of a person to commit an unethical act or fraud. Morales, Gendron, and Guénin-Paracini (2014) further used an empirical study to examine the genealogy of the fraud triangle and found that rationalization is the third element of the fraud triangle, which indicates that the fraud perpetrator must formulate some morally acceptable idea to them before engaging in unethical behavior. If an individual cannot justify dishonest actions, it is unlikely that he or she will engage in fraud (Yadav, 2016). Nonprofit leaders have the responsibility to incorporate governing strategies in organizations that prevent individuals from committing fraud.

Individuals rationalize their behaviors and actions that support and justify them committing a crime. Kassem and Higson (2012) used an empirical study to explain Cressey's fraud theory to show its significance and present other fraud models that

auditors could consider in the auditing processes. Kassem and Higson found that fraud has significant attention from regulators, auditors, and the public. Per Kassem and Higson, a person's rationalization thoughts may affect their ability to make an ethical versus unethical criminal act. Abdullahi and Mansor (2015) echoed that if a person cannot determine right from wrong in decision-making, it is likely, he or she may commit a crime. Nonprofit policies and statements of ethics must be present in any organization to ensure success because it is always probable that individuals engage in fraud for diverse reasons.

### **Contrasting Theory of Ethical Concept**

In nonprofit organizations, fraud may not always be visible and easy to detect. In some cases, leaders may have to increase internal controls or promote ethical values to mitigate fraud. In 1889, Immanuel Kant developed ethical theory and believed that ethical values lead to the rightness of an individual's action (Chilton, Foyou, & King, 2018). An individual that is aware of decisions and behaviors to commit fraud makes an ethical decision. Abdullahi and Mansor (2015) used a conceptual approach to understand and analyze the primary motivations of fraud by auditors, accountants, and other anti-fraud agents. Using secondary sources from the internet, textbooks, and journal articles, the authors found that dishonest and immoral individuals commit more fraud than people with a high ethical value. Based on the evolution of ethics value, Adelstein and Clegg found in their quasi-experimental study of 358 employees surveyed within a pharmaceutical company on the Eastern coast of the U.S that ethics guide employee's moral and behavioral principles. Downe, Cowell, and Morgan (2016) added that ethical

behavior in organizations, which consist of the principles, policies, and guidelines are critical sources that contribute to an effective governance of the organization. To understand fraud's nature, Sorunke (2016) echoed that the personal ethics of an individual are critical factors in a fraudster's motivation to commit fraud. To promote ethical value, it is critical for nonprofit leaders to establish credible layers of code of conduct that may detect and prevent fraudulent practices.

The ethical theory leads to certain qualities that define appropriate behavior and the right action to undertake for the benefit of the organization (Yazdani & Murad, 2015). Chan and Ananthram (2019) explained the ethical theory as a set of criteria for potential decision-making or action taking in the interest of the organization. Treviño, den Nieuwenboer, and Kish-Gephart (2014) argued that in organizational settings, people who are acting and making decisions do so within the power and authority structures. Nieuwenboer et al. also added that leaders make decisions under the organizational leadership, peer influences, and constraints, which may lead an organizational leader to act unethically or ethically.

Some scholars have studied the effects of ethics in organizations. Mathenge (2014) used a survey questionnaire to measure the integrity and morality of Kenyan police officers. Mathenge found that the lack of high ethical values such as competence, confidence, and professionalism were the leading causes of corruption among police officers. Similarly, several researchers have examined the influence of ethical values in the workplace and found a correlation between ethics and job satisfaction (Evans, 2017; Said, Alam, Ramli, & Rafidi, 2017; Soltani, 2014). Analyzing the role of ethics in

organizations, Hess and Cottrell Jr. (2016) argued that promoting ethical values might reduce the tendency of employees to commit fraud.

On the contrary, Chen, Hou, and Lee (2013) and Yaakobi and Weisberg (2018) found that the lack of employees' ethical values would lead to bribery and corruption. Per Chen et al., executive leaders who lack ethical values will tend to ignore policies and procedures to pursue their self-interests. The findings of Chen et al. are significant in improving decision-making and ethical value in organizations. Nonprofit managers should promote ethical value to improve their leadership and managerial decisions.

The ethical theory is similar to the fraud triangle theory because of the dilemma of decision-making. Individuals who engage in fraud under the fraud triangle theory must go through three main stages of their decision-making. Cressey (1953) suggested three primary perceptions that influence individuals' choices to engage in fraud. Per Cressey, pressure, opportunity, and rationalization are factors that motivate individuals to commit unethical behaviors. For example, if a manager adheres to the ethical and moral standard, his attitude, and position may influence followers to comply with ethical values and contribute to detecting and mitigating fraud (Abdullahi & Mansor, 2015; Hammersley, 2015, Ho & Mallick, 2017). CAAs leaders must increasingly monitor compliance with ethical codes and standards to promote trust and discourage fraud. However, poor management monitoring controls may lead to weaknesses in ethical and moral values and fraud detection. The fundamental tenets of ethical theory are critical for nonprofit organization managers to provide strategies to mitigate fraud and increase confidence among stakeholders.

## **Analysis of Fraud in Workplaces**

Fraud is a reality in workplaces, and employees can be the most significant source of fraud. Raval (2018) used a methodological approach to explain the role of human desires, intentions, and actions in the indulgence of, or resistance to, and the act of financial fraud. Raval found that the evidence from the fields of religion, philosophy, sociology, neurology, behavioral economics, and social psychology leads to the development of the disposition fraud model. Ge, Koester, and McVay (2017) echoed that negative behaviors such as corruption or fraud could lead to organizational failure. Bošković (2017) added that fraud could be an essential factor that can demotivate employees to reach a company's goals when it becomes regular and routine. Per Raval, there are direct and indirect human attitudes in committing fraud. Based on the fraud triangle theory, nonprofit leaders should rely on the disposition fraud model to predict intentional actions of fraud.

Rossouw (2000) also indicated that a proper understanding of fraud phenomenon is critical to undermining it. Using a qualitative case study, Rossouw analyzed the motivation of fraud committed by the convicted people in prison and found that the fraud committed by prisoners covered a broad spectrum. As stated by Tam (2016), fraud can arise from self-centered considerations like greed or financial gain and other-centered considerations like providing material assistance to family members or friends in need. Rossouw's conclusion also revealed that some participants committed fraud under the pressure or voluntarily. Rationalization provided by the participants included blaming others for their actions.

**Fraud detection.** Fraudulent practices have increased in the post-financial crisis years, while at the same time; resources allocated to fight fraud have been insignificant. Purda and Skillicorn (2015) developed a data-generated tool to distinguish fraudulent and truthful reports of auditors and controllers. Based on the language used in the annual and interim reports, the authors found that controllers and auditors used some languages to cover up fraudulent acts that affected regulators and investors in choosing cost-effective tools to make investment decisions. Appiah (2015) opined that a critical objective of control should be to inform and assist management team leaders with the facts from which they could make managerial decisions to improve business policies and performance. Effective control should also take into account the alternative to detect fraud by providing financial and nonfinancial tools for business prosperity (Chima, Obiah, & Linda, 2018; Masegare & Ngoepe, 2018; Warren & Schweitzer, 2018). Nonprofit managers should discourage fraud behaviors within organizations to encourage a positive attitude during controls or audit operations.

Complying with accounting and financial principles is critical for effective nonprofit organization leaders to promote transparency and detect fraud. Purda and Skillicorn (2015) used a sample of quarterly and annual reports issued by firms with at least one accounting and auditing enforcement release to assert fraud in organizations. Using a decision-tree approach to establish a rank-ordered list of words from the Management Discussion and Analysis sections, the authors suggested that real managers should be able to differentiate false and truthful reports. Based on the top 200 words from a selected list of words, and using the support vector machines (SVMs), Purda and



Skillicorn revealed that the lack of truthfulness in writing or reporting the facts could hurt the quality and seriousness of the report. For Purda and Silicorn, each report should refer to the real facts. An advantage of this approach is that one does not require any previous knowledge of what may constitute a suspicious word and its updating based on new reports. Dong, Liao, and Zhang (2018) added that effective managers who develop statistical methods for analyzing the language used in the Management Discussion and Analysis section of a firm's annual and quarterly reports were critical tools of fraud detection. Moreover, using scientific and analytic methods are also evolutionary fraud-detection techniques that may contribute to business performance.

In the current environmental business context, researchers use statistical methods to detect fraudulent activities while analyzing financial statements. Soviany (2018) used artificial intelligence (AI) to detect online fraudulent transactions. Soviany focused on a supervised learning engine with mega data components capable of supporting high-performance fraud detection and improving the predictive value of original data. Soviany found that one of the promising areas of AI application concerned the financial sector and particularly the usage of AI to find solutions for fraud management. Technology innovation may contribute positively or negatively to high-performance fraud detection (Nuscheler, Engelen, & Zahra, 2019; Sarah, 2016). Having an adequate and appropriate technological tool may be significant to mitigate or detect fraud before a catastrophic situation arises.

The research of Albrecht and Hoopes (2014) on the public expectation of auditors in detecting fraud was crucial for understanding how fraud occurs in organizations.

Despite the public's view of auditors as organization protectors, accountants and auditors have the primary duty to design, implement, and maintain a system of internal controls that provide reasonable assurance for business performance (Church et al., 2018; Permana, Perdana, & Kurniasih, 2017; Rieppel 2018). Dumay, La Torre, and Farneti (2019) echoed that auditors have the responsibility to provide reasonable assurance that financial statements are accurate and prepared consecutively by generally accepted accounting principles. Albrecht and Hoopes' (2014) findings regarding the experience of an expert in witnessing numerous major fraud cases to illustrate situations in which auditors can expect to detect fraud were crucial to assessing fraud in organizations. To Albrecht and Hoopes, some factors make fraud nearly impossible to discover, even when a competent auditor complies with the generally accepted accounting standards. Many factors like misappropriation of assets or misstatement may make fraud difficult to detect by auditors (Appiah, 2015; Jenkins, Negangard & Oler, 2018). Akeem (2015) added that factors that make fraud detection particularly difficult are when audited financial statements include the nature of accounting records, the use of outsiders to help conceal the frauds, reluctance of people to disclose what they know, and forgery and lying. Bhasin (2016) further identified four factors, which are not independent of each other, but that existed in the financial statement fraud cases. Per Bhasin, inadequate training and experience of the auditors, poor planning to gather evidence, and lack of professionalism and independence are factors that lead to the audit inefficiency.

**Technological fraud.** The development of fraud increases with technology innovation (Bhasin, 2016). Paté-Cornell, Kuypers, Smith, and Keller (2018) discussed

using Bayesian analysis, a general probabilistic risk analysis for cybersecurity in an organization. According to Paté-Cornell et al., the risk of cybersecurity is increasing each year, and companies are at risk if there are no efficient international and local regulations to prevent businesses against cyber-attacks. The authors also found that the financial losses for companies due to cyber-attacks come from risk management decisions based on the lack of adequate data analysis and fraud prevention by managers. Biglow (2016) and Daniel (2016) echoed that hacking, slamming, or changing the telephone service without customer knowledge, phishing, or acquiring usernames, passwords, and credit card information, are emerging types of thefts and frauds in the current business and social environment caused by technology innovation. Raghavan (2018) added that it is of vital importance that corporate managers understand the importance of financial crimes as well as cyber risk attacks to protect their businesses against local and international frauds. Managers must be aware of the impacts of technology innovation to discourage fraudsters or thieves who exploit the weaknesses of internal control to engage in criminal activities (Holt & Kennedy, 2019; Horn, Dunagan, & Carey, 2018; Ndofor, Wesley, & Priem, 2015).

**Fraudulent language.** Analyzing fraud in the current business context, Holderness Jr., McNeal, Riley, and Wells (2018) noted that new generation technology divides the business world with new slangs and old phrasings. Over time, these types of changes infiltrate into business communications. Bennett and Hatfield (2018) stated that changes in language and communication affected the way auditors should analyze the risk of fraud in the modern business environment. For example, using quick abbreviated

messages like emojis, memes, digital stickers, and other image-based digital communications are different means that people use to interact with one another in emails, text messages, instant messages, and on social media. Holderness et al. advised audit leaders to encourage their staff members to have in-person conversations, especially when seeking important or potentially sensitive information from clients. Auditors and anti-fraud staff also need to take proactive steps to keep up with language and communication changes so that they can effectively communicate with all parties during their engagements.

**Workplace crimes.** Vadera and Pratt (2013) examined different types of workplace crimes. The authors found that workplace crimes might consist of pro-organizational, nonaligned-organizational, and anti-organizational crimes based on the intentions of the perpetrators. Vadera and Pratt also found that fraud can be pathologic and linked to various identification, such as over-identification, over-disidentification, under-identification, and ambivalent identification. Gupta and Gupta (2015) opined that pathologic fraud behaviors lead to propensities to commit other types of workplace crimes. Employers should increase work meetings and training to promote ethical standards and company culture among employees.

Vadera and Pratt's analysis are critical to determining that over-identification and over-disidentification have direct effects on workplace crimes, whereas under-identification and ambivalent identification indirectly influence the propensity to engage in workplace crimes. The results of Vadera and Pratt may lead to clarify the inconsistent conclusions in previous work in workplace crimes and emphasizes the importance of

including organizational identification as a critical factor in the extant models of workplace crimes. Tombs (2017) suggested that policy implications regarding workplace crimes within different agencies might be more effective in enforcing laws and disciplining individuals engaged in criminal activities.

### **Fraud in Profit Organizations**

Many researchers and experts have written a lot about fraud in for-profit organizations due to the increasing rate of fraud in the current business context. Sridharan and Hadley (2018) used a case study methodology to investigate the factors that allowed and encouraged a massive case of fraud at Wells Fargo. Wells Fargo is among the largest and successful banks in the United States. Sridharan and Hadley founded that the effect of internal audit failure, firm culture, board structure, and oversight were the significant causes of fraud at Wells Fargo. Elson and Ingram (2018) echoed and highlighted that the pressure to cross-sell was intense, and Wells Fargo managers provided its employees with compensation to cover fraud. Opening deposit and credit cards account for more than two million customers without customers' authorizations were the vast scandals that affected the reputation and credibility of the banking systems. Per Elson and Ingram, Wells Fargo employees from top to bottom committed both frauds and crimes.

Wells Fargo crimes and frauds affected business activities. The company's global managers of internal audit who created fake customer identities and generated fake invoices against their names committed fraud to inflate the company's revenue. Zerban (2018) revealed in his conclusion that the global head of internal audit of Wells Fargo also forged board resolutions to obtain loans illegally for the company in this scheme

fraud. It also appeared that the cash that the company raised through American Depository Receipts in the United States never made it to the balance sheet. Greed for money, power, competition, success, and prestige were the compelling forces that influenced Well Fargo managers to violate bank regulations.

In a similar case, Drábková (2018) evaluated the risk of the effect of accounting errors and frauds on reported accounting records based on the CFEBT risk triangle of accounting errors and frauds. Drábková used a case study to examine a selected accounting unit predominantly operating in trade during 2011 and 2015. Per Drábková, there were significant discrepancies between the generation of earnings and an increase in cash flow. The detection and evaluation of the effects of accounting errors and frauds for a selected accounting unit negatively affected the reliability of financial records.

Alali, Sophia, and Wang (2017) set out to analyze how financial reporting quality affected trends in restatements and frauds from 2000 to 2014. This analysis period included the passage of the Sarbanes-Oxley Act of 2002, which enacted financial disclosures to restore public confidence in the U.S. capital markets following significant accounting scandals in the early 2000s. Using compiled data from across the public reporting sphere, Alali et al. discovered that financial frauds were considerably lower than financial restatements during the analysis period. Jan (2018) added that the incidence of companies with both false financial restatements and frauds detected might affect the viability of the business. The conclusions of Alali et al. are consistent with prior studies on the trends of restatements of financial statements.

Bhasin (2013) used a qualitative case study to explore and describe fraudulent financial reporting practices in the most significant fraud cases in India, which involved Satyam Computer Services, labeled as “India’s Enron” by the Indian media. Bhasin wanted to highlight the increasing rate of white-collar crimes and claiming stiff penalties, exemplary punishments, and effective enforcement of the law with the right spirit. Per Bhasin, the Satyam Computer’s creative-accounting scandal brought to limelight the importance of ethics and corporate governance. Williams (2018) echoed that the Sarbanes-Oxley Act of 2002 is improving corporate governance and decreasing the incidence of fraud in the current business context. In recent studies and survey analysis, some researchers indicated that investors and corporate managers continue to have concerns about financial statement fraud (Prescott & Vann, 2018; Roychowdhury & Srinivasan, 2019). According to Bhasin (2013), many employees who commit financial statement frauds are senior managers, middle and lower-level managers, and organizational criminal activists. Zerban (2018) opined that CEOs and chief financial officers (CFOs) committed accounting frauds to conceal real business performance, preserve personal status and control, and maintain high personal income and wealth. Middle and low-level employees falsified financial statements related to their area of responsibility like a subsidiary, division, or service, to conceal poor performance and to earn performance-based bonuses. In his conclusion, Bhasin revealed that the CEOs and the company’s global head of internal auditors used several different techniques to perpetrate fraud in the company. Nigrini (2019) opined that creating false bank statements and falsifying bank accounts to inflate the balance sheet and income statement

are acts that may envisage up to 10 years in prison and million dollars fines for fraudsters. Real managers should hire credible and loyal agents in the finance and accounting services to prevent the falsification of financial statements.

Salem (2012), on the other hand, sought to answer some questions relevant to fraud detection and technology associated with fraud prevention in the computer systems. Salem, in his analysis, wanted to categorize fraud, learn the motivations behind the fraud, the nature of the organization, and individuals involved in computer misconduct practices. Zhang (2018) noted that auditors have a more prominent role in uncovering fraud and must be vigilant in the execution of their responsibilities by ensuring the truth in their analysis. Zhang further identified common symptoms of acts of fraud and argued that real auditors should be acutely aware of acts, types, and symptoms of fraud. Tunley, Button, Shepherd, and Blackbourn (2018) echoed that those likely to commit fraud are mostly corporate officers and other employees in the positions of responsibility in accounting and data analysis processing. A reliable system of internal control is the most effective way of fraud prevention (Li, Dai, Gershberg, & Vasarhelyi, 2018). Managers may prevent fraud in exploring new computer technology as well as improving computer security within the organizational systems.

The exact nature of fraud is very complex to master. Free and Murphy (2015) used an inductive analysis to investigate the reasons why individuals co-offend in fraud. Based on the interview with 37 convicted fraudsters, Free and Murphy found that the reasons for instigating co-offender frauds vary according to the nature of ties between co-offenders in the commission of fraud. Bishop, Hermanson, and Riley (2017) echoed that



the key differences between the primary beneficiary and the qualitative nature of fraud were factors that motivate individuals to propose or accept an offer to participate in fraud. For maintaining shareholders' trust, managers must master the concept of the triangle theory (Greve & Pedersen, 2017; Hung & Cheng, 2018; Lenz & Graycar, 2016). Under the triangle theory, managers who understand the true nature of fraud have the chance to increase stakeholders' satisfaction. Effective business managers need to understand individual fraud motivations to mitigate fraud and ensure the best future of the organization.

In response to calls for more research on how to prevent or detect fraud, Murphy and Dacin (2011) developed a framework to identify psychological pathways to fraud. Per Murphy and Dacin, multiple theories relating to moral intuition and disengagement, rationalization, and the adverse effect of fraud were three psychological pathways that lead to fraud. The purpose of developing a psychological framework by Murphy and Dacin was to draw attention to under-researched aspects of ethical decision-making and to increase the understanding of psychology in committing fraud. Lokanan (2015) echoed that, when individuals have an opportunity and pressure to commit fraud, there are three psychological pathways to fraud nestled within attitude or rationalization. To Lokanan, the lack of awareness, intuition coupled with rationalization, and reasoning are psychological pathways to fraud. Similar to the fraud triangle theory, understanding the psychological mechanism of fraud is critical for effective business leaders to prevent fraud in their organizations.

It is paramount for business leaders to identify certain insidious situational factors in which individuals commit fraud and to extend the knowledge of rationalization to reduce the negative effect on companies' performance (Lokanan, 2015). Ekholm (2015) opined that several other methods to reduce fraudsters' practices exist and could serve as potential psychological red flags to predict future fraudulent behavior. For example, managers can motivate employees to suggest in open meetings any constructive idea to increase job satisfaction. Job satisfaction is an essential factor in increasing performance and psychological satisfaction in the workplace (Bin, 2015; Boskovic, 2017; Guest, 2017; Wu et al., 2017). Nonprofit leaders can use the psychological framework as a theoretical foundation to explore several interventions to mitigate fraud.

Writing on financial accounting fraud, Sharma and Panigrahi (2012) argued that with an upsurge in financial accounting fraud in the current economic environment, financial accounting fraud detection became an emerging topic of great importance for academic and industrial researchers. Cao, Chyckyla, and Stewart (2015) stated that the failure of an internal auditing system of the organization in identifying accounting frauds led to the use of specialized procedures to detect financial accounting fraud. However, dealing with large data volumes and complexities of financial data are significant challenges for forensic accountants (Jackson, 2017; Vasarhelyi, Kogan, & Tuttle, 2015; Taminiau, Heusinkveld & Cramer, 2019). Sharma and Panigrahi's finding was a comprehensive review of the literature for the detection of financial accounting fraud and indicated that logistic models, neural networks, Bayesian belief networks, and decision trees were appropriate for the detection and classification of fraudulent data.

Similarly, Soleymani et al. (2018) used an unsupervised data-mining algorithm and implemented an outlier detection model to assist experts in detecting medical prescriptions suspected of fraud. Data sets included information about the insured, prescribed medicines, and information about medical providers in 2013. The findings of Soleymani et al. indicated that the data-mining algorithm could help accurately detect potential fraud cases in medical prescriptions and reduce the number of medical prescriptions and investigators' heavy workloads.

Kaplan, Pope, and Samuels (2015), on the other hand, studied what influences fraud reporting in organizations. Kaplan et al. noted that only a fraction of employees who discover fraud report it to managers. Given the severe consequences of fraud, a better understanding of the factors influencing individuals' intentions to report fraud is crucial, particularly to a non-anonymous recipient such as a manager. Peltier-Rivest (2017) stated that reporting fraud to a manager must be a procedural safeguard to sustain business longevity. However, the fraud triangle theory helps to master the type of fraud and its effects on business growth.

Lack of transparency leads to fraud (Jackson, 2017). Kaplan et al. (2015) contended that employees are the primary sources from which frauds occur. Kaplan et al. also indicated how managers should handle a fraud report to promote productivity. The conclusion of Kaplan et al. was consistent and aligned with previous research, which showed that participants make stronger attributions to a person engaging in misappropriation of assets compared to a person engaging in fraudulent financial reporting.

The causes and consequences of fraud in profit organizations are numerous.

Pamela et al. (2016) used a survey to combine three groups of individuals who had fraud experience. Pamela et al. surveyed prisoners who committed fraud within an organization, individuals who audited or investigated fraud within an organization, and individuals who witnessed fraud within their organization. In their analysis, Pamela et al. found that 39 % of the respondents agreed that an instrumental climate was present when the fraud occurred within the organization. Tepper, Simon, and Park (2017) argued that an instrumental climate is significantly associated with a malevolent work environment like being mistreated and social incentives and pressures. Pamela et al. found that substantial support for the use of externally oriented rationalizations and an instrumental climate are the claims that help employees to perform acts that benefit organizations. The study also revealed that an instrumental climate is not associated with conventional attitude variables like the prior history of white-collar crime, character, or ethical values of the perpetrator or internally oriented rationalizations such as minimizing or ignoring the consequences of the fraud or individual greed or need. Cao et al. added that employees within instrumental climates make decisions based on their self-interest or in the interest of the organization to the detriment of others. Referencing the fraud triangle theory, the conclusion of Pamela et al. is a good explanation of employees' fraudulent behaviors in profit organizations.

Ethical climate theory is a crucial concept that contributes to mitigating fraud.

Brown, Hays, and Stuebs Jr. (2016) stated that the fraud triangle theory offers an insightful theoretical framework for investigating an organizational climate that

experiences fraud. The use of ethical climate theory was appropriate because empirical work in ethical climate theory has identified five distinct climate types within organizations. The five climate types are instrumental, caring, independent, rules, and law and code (Pamela et al., 2016). The analysis of Pamela et al. was significant about fraud investigation, and managers may explore the concept of fraud to implement new strategies to improve and sustain the business.

Ethical behavior is an essential factor in fraud analysis. Krause (2016) discussed the gray areas of health care fraud and found that medical frauds have a direct effect on federal government health care programs. Gordian and Evers (2017) opined that corruption in the healthcare industry has increased the last past 5 years and resulted in many medical devices recalls affecting people healthcare. Government leaders and business managers should improve and promote ethical behaviors for the welfare of the entire local communities. As explained above, Krause's analysis referred to the fraud triangle theory and contributed to the prevention of businesses collapsing from fraudulent activities.

### **Fraud in Nonprofit Organizations**

Effective leaders sustain their business activities by complying with the company's policies and government regulations. Writing on fraud in nonprofit institutions, Murphy (2015) explained that some nonprofit organizations have a unique environment that can contribute to fraud. Common characteristics such as an outlook of trust, significant control by a limited number of people like founders, executive directors, or CEOs, can contribute to the likelihood of fraud (Girgenti & Hedley, 2016). McDonnell

and Rutherford (2018) added that limited human and financial resources, reliance on volunteers, higher turnover, and weak internal controls are among the primary factors that contribute to fraud in nonprofit organizations. Ammar (2017) opined that managers for nonprofit organizations could use and explore different strategies to prevent fraud and ensure effective control to achieve a company's mission and goals. Goreva, Luther, and Bromall (2013) analyzed how the adoption of accounting information systems has contributed to the incidents of embezzlement in small nonprofit organizations. Goreva et al. estimated the annual losses for fraud to nonprofit organizations at 6% of fund-raising revenues, 13% of operating budgets, and the total annual losses at \$40 billion. In their conclusion, Goreva et al. found that risk management, theft, fraud, and embezzlement in nonprofits are increasing each year. It is critical for nonprofit organization managers to assess regularly all risks related to fraud for the longevity of their organization.

Fraud has become a cause of concern despite the nature and type of organizations. Dzomira (2014) stated that nonprofit entities must promote good governance and trust among organizational members. The fraud schemes, which occur in commercial and other trading organizations, are also typical in nonprofit organizations (Zack & DeArmond, 2015). Dzomira (2014) noted that nonprofit making sectors have a crucial role to play in satisfying the desire of the social community, whether it is religious, health, cultural, or other human service organizations. Murphy (2015) echoed that nonprofits agencies do not operate on a commercial basis and mostly rely on members' subscriptions and contributions. The capital of nonprofit organizations come from public

or private grants or other fundraising events. Managing and preserving such entities' resources are in the hands of the boards and officers.

Internal control is equally an essential function to any organization, whether profit-oriented or non-profit oriented. Gottschalk (2016) argued that in nonprofit organizations, the internal control has a crucial role in ensuring stakeholders about reliable information regarding donor funds, grants, and fundraising, while in profit organizations, audit and control assess risk management and prevent accounting irregularities. It is the internal control function, which defines whether the policies, procedures, and practices designed and approved by organizational managers and the board are operating correctly. Dzomira (2014) echoed that the role of internal control is to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of reporting, and compliance with the applicable laws and regulations. Per Dzomira, nonprofit entities lie in good stewardship, transparency, and accountability of the board and management. Administrators of nonprofits organizations must always be vigilant on fraudulent actions, which may include cash theft, expense account fraud, misuse of organizations' intellectual property, and inventory theft (Kaplan et al., 2015). As stated by Alali, Sophia, and Wang (2017), most of the nonprofit organizations do not have efficient internal controllers, officers, and other relevant staff to monitor the controls and establishment of an ethical code to ensure organizational effectiveness.

Sound internal control is vital for nonprofit organizations. Dzomira (2014) noted that there are five components of internal sound control. Per Dzomira, the five components are (a) control environment, (b) risk assessment, (c) control activities, (d)

information and communication, and (e) monitoring. Furthermore, Dzomira (2014) explained that the context of internal controls embodies the organization's principles, trust, values, norms, and culture. Internal controls should refer to systems of policies and procedures that provide safeguard to an entity's assets and other resources usable by the organization, accurate and reliable financial reporting, regulations compliance, and effective operations (Susanto, 2017). According to Raval (2018), internal sound control includes the safe custody of funds received by cashiers, accurate, and timely financial expenditures reporting. The board members and senior management should review and adopt the completion of annual audited financial statements before public disclosure. Therefore, internal controls focus on an organizational risk assessment, general oversight provision, and reporting on the nonprofit entity's control position.

Frauds committed against and by employees of nonprofit organizations can be internal or external to the organization. Arend, Sarooghi, and Burkemper (2015) stated that internal frauds include asset misappropriations, revenue, and cash receipts. Theft-involving cash occurs when an individual takes money for personal use and does not usually appear in the accounting books (Gordian & Evers, 2017). For example, the perpetrators could be the person either who collects the cash, opens incoming emails, logs in cash receipts, manages bank deposits, or collects cash from financial agencies. Theft of donated items or goods is a lack of proper records on donated merchandise by most nonprofit organizations, especially religious entities such as churches. It is via such slackened controls that the perpetrators take advantage of the lack of controls to commit fraud (Dzomira, 2014; Ho & Mallick, 2017).



The other forms of internal fraud in nonprofit institutions include purchasing and cash disbursement, using, for example, a credit card abusively. The fraudulent use of organizations' cards for personal use by the perpetrators is a negative behavior to the organization. Dzumira argued that using ghost or fictitious vendors is common in most nonprofit organizations, and fraud can occur while employees create, for example, a fake supplier company and submit fake invoices for payments. In addition to fraud in nonprofit companies, there is the fraud of payroll padding and employee expense reporting and ghost employees. This is a simple act in most nonprofit organizations whereby either maintaining laid-off employees or setting up fictitious employees on the payroll. The perpetrator cashes the checks made out to these fake employees (Dzumira, 2014).

In addition, the staff of nonprofit organizations can create fictitious expenditures. For example, creating fake invoices or working hour's overstatement for later reimbursement or payment. The responsible employees can claim more than the worked hours by their juniors and make a fake agreement between the supervisor and the junior to steal the company. Arend et al. explained that other asset misappropriations embody personal use of the organization's assets or resources. For example, employees using the organization's computers, software, and printers for personal projects are negative behaviors or fraudulent practices. Dzumira opined that using personal long-distance telephone calls, utilizing the organization's internet access and e-mail for personal use, using the organization's photocopier to make copies of personal documents are new types of fraud in the modern work environment.

External frauds perpetrated in nonprofit companies may include vendor or supplier frauds. For example, a nonprofit entity might inflate or overstate fundraising costs to programs to overstate expense ratios. Gordian and Evers stated that failure, for instance, by donors to comply with the given requirements pertaining to donor funds usage or misrepresenting the portion of donations are fraudulent practices. Nonprofit organizational leaders should be aware of the consequences of noncompliance with business policies to secure their organization from penalization.

Frauds committed by nonprofit managers may be intentional false financial reporting. By creating a false assertion about financial statements, it would include, for example, misleading donors through expense misclassifications regarding program funds usage or restricted donation misclassifications. Roychowdhury and Srinivasan added that non-disclosure of financial party transactions or revenue inflating through holding records open beyond the period end are fraudulent practices. Fraud in nonprofit organizations can also arise from failing to value receivables, inventory, donated assets, and gift annuity obligations (Dzomira, 2014). Gottschalk (2016) analyzed the fraud examination report written by the inspector general about Padakhep Manabik Unnayan Kendra (PMUK) in 2012. PMUK is a nonprofit organization in Bangladesh, which received \$5.2 million US dollars from Save the Children association to prevent and protect children against HIV/AIDS in Bangladesh. After an audit of financial statements, the inspector general found that PMUK engaged in a scheme to divert the grant funds disbursed under the HIV/AIDS program and revealed a loss of funds for \$1,894,426. The fraudster concealed the diversion through fabricated documents, including a set of

manufactured books and records to justify withdrawals that never actually took place, and then withdrew funds separately (Gottschalk, 2016). Per Gottschalk, the fabricated and falsified bank statements that led to a loss of money were evidence of fraud and affected the company's credibility.

Writing on internal controls in nonprofit organizations, Patterson and Kuperus (2016) argued that complaining about embezzlement and mismanagement of funds from religious organizations, particularly in churches, are increasing in the local communities and need more attention of donors and official authorities. Such disgraceful acts have raised many concerns about the effectiveness of internal control systems in churches. Ahiabor and Mensah (2013) echoed that many churches have the perception that all Christian workers are honest and sincere; hence, there are many cases of theft and fraud, which are revealed or investigated by churches' members. The donors also have the perception that they are contributing to God and not a man, and all they want in return are blessings from God; hence, they do not know what church leaders do with their donations. Per Ahiabor and Mensah, many churches do not have internal controls to hinder the effectiveness of church officers and employees. Church leaders need to rely on external controls to prevent conflicts to ensure donors' trust (Patterson & Kuperus, 2016).

However, Bennett and Hatfield (2018) noted that nonprofit leaders, including pastors and religious leaders, should be aware of external audits to ensure that financial controls and fraud prevention are adequate. The ACFE reported that less than 10% of frauds discovered are the result of an audit by an independent accounting firm. On the other hand, Yee, Sujana, James, and Leung (2017) used an empirical study and purposeful

sample of 83 Singaporeans from 25 organizations to analyze the role and effectiveness of internal auditing on customers. Based on Marxist economic theory, the authors found that auditors in profit and nonprofit organizations give greater scrutiny to items audited and have a responsibility to give reasonable assurance that there are no material misstatements in financial statements. Active nonprofit managers should have an absolute responsibility for mitigating fraud and promoting auditor's review and test financial controls to ensure efficient control.

The purpose of an internal or external audit is to make sure that the management staff is acting in the best interests of the organization (Patterson & Kuperus, 2016). According to Moore (2016), nonprofit managers are the guiding eyes and responsible for policies and legal compliance. Kotsanopoulos and Arvanitoyannis (2017) echoed that complying with company, local, state, and federal regulations promote success and development. Nonprofit leaders must encourage their employees to give feedback about the code of conduct and suggest new insights to promote confidence in the workplace (Sebastiano, Belvedere, Grando, & Giangreco, 2017). To mitigate fraud, effective nonprofit leaders should use efficient managerial tools to oversee, listen, and communicate effectively to deter fraudulent behaviors in their organizations.

### **Transition**

In section 1, I presented the background, problem statement, purpose statement, nature of the study, research question, and interview questions related to my study. I also introduced the conceptual framework, operational definitions, assumptions, limitations, delimitations, and significance of my study. Further, I presented the review of the

professional and academic literature, which described the concepts of fraud triangle theory and addressed causes, consequences, and impacts of fraud on nonprofit organizations' performance.

In section 2, I presented a restatement of the purpose statement, the role of the researcher, participants, and research method and design. I also described the population and sampling, ethical research, data collection instruments and techniques, data organization and analysis, and discuss data consistency and credibility in qualitative analysis. In section 3, I presented the findings, the implications for social change, and the recommendations for nonprofit leaders to mitigate fraud in their organizations. I also formulated recommendations for further research and presented the conclusions of my study.

## Section 2: The Project

The primary purpose of this qualitative study was to identify strategies nonprofit organization leaders used to mitigate fraud in their organization. Mitigating fraud should be the primary goal of nonprofit managers who want to reach success and meet the organization's goals (Ge et al., 2017). As the primary researcher and data collection instrument, my role was to collect data from five nonprofit agencies managers who have more than 5 years of experience in their respective organizations. I used interview techniques with open-ended questions and methodological triangulation to collect and analyze data from the participants. I also included reliability and validity strategies to increase the credibility of my research and comply with the ethical standards for confidentiality and participants' protection during the research processes.

### **Purpose Statement**

The purpose of this qualitative multiple case study was to explore the strategies that some nonprofit CAA executive leaders use to reduce fraudulent financial activities. The population for this study included executive leaders of five nonprofit community action agencies in Maryland who have implemented strategies that have successfully reduced fraudulent financial activities. The contributions to social change are aiding executive leaders in developing processes and procedures that advocate for better policies and providing strategies to reduce fraudulent financial activities, promote corporate responsibility, and influence the performance and positive outcomes of programs. The contributions for social change can support the success of programs such as Head Start, tax preparation, and adults' and children's education in local communities.

### **Role of the Researcher**

A researcher's role is to identify participants; collect, organize, and analyze data; and present the findings (Yin, 2017). As the primary researcher, I selected organizations with leaders who had a personal interaction and conversation with the study population. To collect credible and specific information related to my study, I used an interview protocol (see Appendix A), which is an instrument that researchers use to collect rich and detailed qualitative data for understanding participants' experiences (Patton, 2015). My experiences and knowledge of working for 14 years as an accountant and chief financial officer in a nonprofit organization were beneficial to understand fraudulent behavior in the current business context and avoid possible bias in analyzing and interpreting my findings. Mitigating biases is critical for demonstrating research credibility and consistency (Baker, 2016; Bromley, Mikesell, Jones, & Khodyakov, 2015). Though as a novice researcher, I did not have prior experience in academic research to mitigate potential biases that could influence the results of my study, for my research, I used the member-checking technique to improve my research consistency and credibility.

My additional roles consisted of adherence to Belmont Report Principles, which recommend treating participants with respect, justice, and beneficence and secure the data for the confidentiality of participants. As the study involved the use of human subjects, compliance with ethical principles was essential. Before collecting data from participants, I received study approval from the Institutional Review Board (IRB) of Walden University. The IRB process is critical to prevent the study's risks and promote the research's consistency (Freed et al., 2016). Additionally, for the research credibility, a

researcher should adhere to ethical principles and prevent issues like participants' autonomy, anonymity, confidentiality, beneficence, non-maleficence, and justice (Rogers et al., 2015). For my research consistency and credibility, I sought the consent of the participants by explaining to them the procedures of the study and their rights to withdraw from the study at any time during the research processes.

I also remained aware of personal biases throughout the data analysis processes, such as personal beliefs and biases regarding the study topic from participants who worked for former employers. Awareness and management of personal biases ensure the integrity of the data collection and analysis process (Ulrich et al., 2015). I sought unbiased interview techniques when conducting all interviews. The interview questions were neutral and open-ended. Interviewees had the same length of time to respond to each interview question and provide their perspectives and insights on fraudulent activities in their organizations.

### **Participants**

In qualitative research, selecting appropriate participants is critical for presenting a sound analysis (Yin, 2017). Selecting reliable participants is critical for a researcher to collect valid information (Hassan, Nadzim, & Shiratuddin, 2015). The participants in this study were executive leaders of CAAs in Maryland. I selected participants who were able to understand and respond to the research question. I used a purposive sampling method and Google search engine to select a sample size of five executive leaders who have implemented strategies to reduce the frequency and effects of fraudulent activities in the CAAs. I referred to the eligibility criteria to select my participants. The eligibility criteria



were top executive nonprofit leaders or managers who have business and fraud mitigation experience in their organizations. Executive leaders and officers had more than 5 years of managerial and leadership experience among a population of CAAs located across the state of Maryland. Building a healthy relationship between a researcher and participants to collect information using a qualitative methodology is important to the effectiveness of the study (Cunliffe & Alcadipani, 2016). Developing trusting relationships with participants is a pathway to gaining access to interviews for your study (Taylor, Bogdan, & DeVault, 2016). For my research, I was honest and open to build trust with interviewees to collect reliable and credible information about using the fraud triangle theory to respond to the research question.

## **Research Method and Design**

### **Research Method**

The three research methodologies are quantitative, qualitative, and mixed methods (Hyett, Kenny, & Dickson-Swift, 2014). Researchers use a quantitative methodology to measure variables, test hypotheses, analyze causal relationships between variables, generate value-free predictions, and generalize the research outcomes (Makrakis & Kostoulas-Makrakis, 2015). In this study, I was not testing a hypothesis or looking for causal relationships; therefore, quantitative method was not appropriate for the study. In contrast, researchers use qualitative methodology to collect information from participants who lived and experienced the phenomenon analyzed (LeRoux, 2017). A qualitative methodology was appropriate for this study to collect reliable information about what participants think about mitigating fraud in their businesses. Qualitative

research is critical to reveal alternative concepts regarding a real business problem, which emphasizes the socially constructed nature of reality, holism, exploration, flexibility, meaning-making, and understanding of the business problem (Makrakis & Kostoulas-Makrakis, 2015). Some researchers have used mixed methods research to combine both qualitative and quantitative methodologies to address the research question (Guetterman, Fetters, & Creswell, 2015), but using a mixed methodology was not appropriate for my study because I did not generate two types of data outcomes.

### **Research Design**

In this qualitative study, the design I used was a case study. In case study research, the researcher provides a combination of structuring the research and the significant parts to show how the research project work together to address the research question (Trochim, 2006). Case study research constitutes an all-encompassing method that covers the logic of design, data collection techniques, and specific approaches to data analysis (Yin, 2017). High-quality case study research is focused on rigor, validity, and reliability as well as evaluation (Yin, 2017).

Phenomenology is the empirical study of the different ways in which people understand various phenomena in the world around them and how these ways of understanding relate to one another (Stenfors-Hayes, Hult, & Dahlgren, 2013). Phenomenology is a research method for mapping the qualitatively different ways in which people experience, conceptualize, perceive, and understand various aspects of phenomena in the world around them (Stenfors-Hayes et al., 2013). Because the results of a phenomenological analysis are the description of the essence of the lived experience of

a given phenomenon, it was not an appropriate design for the study because I was not seeking to study past or convicted officials involved in fraud but current serving officers of CAAs.

Additionally, narrative designs are used to describe in chronological order individuals' experience and life story (Lawrence & Tar (2013). In the ethnography design, researchers use observation to analyze the culture of individuals (Ingham-Broomfield, 2015). Narrative and ethnography are job-oriented and depend on the researchers' skills (Chien & Hassenzahl, 2017; Hallett & Barber, 2014; McKim, 2017). For these reasons, ethnography and narrative were not appropriate for this research.

In qualitative research, some researchers often concern the development of concepts that help understand social phenomena in natural settings by emphasizing the meanings, views, and experiences of their participants. The analysis of qualitative data represents one of the more challenging aspects of qualitative research (Kaczynski, Salmona, & Smith, 2014). During my research analysis, I remained open to multiple paths of meanings and more in-depth insight and the concurrent interplay between inductive and deductive reasoning. To achieve data saturation, I ensured participants respond in-depth to all interview questions and there was no new information emerging. The case study design was useful to get answers for *when*, *what*, *how*, and *why* questions to respond to the research question.

### **Population and Sampling**

Researchers use a purposive sample to select participants according to the needs of the study (Robson & McCartan, 2016). To answer my research question, I used

purposive sampling to recruit participants who knew the impacts of fraud in organizations and who had managerial experience for more than 5 years of leading a CAA. Purposive sampling is a useful technique to identify and select individuals knowledgeable about a phenomenon analyzed and obtaining reliable information related to participants' experiences (Palinkas et al., 2015). The state of Maryland has 17 CAAs. I used the Google search engine and explored official reports and sources to know, locate, and select participants who met the eligibility criteria.

The eligibility criteria included (a) be a top executive manager of CAAs with a minimum of 5 years of managerial experience, (b) have more than 5 years of business activities in Maryland, and (c) be a member of a CAA. After selecting the participants, I sent an invitation letter and the informed consent form before organizing the interview with each participant. For the credibility of my study, I organized the interviews at the participants' location. I ensured that the place was quiet to avoid any noises and distractions. I also ensured the place was clean, clear and there was a good visibility to read and write the summaries. After each interview, I identified new emerging themes and collected new information until reaching data saturation. Data saturation is the process of gathering data until reaching the point where there is no new information arising to answer the interview question (Richards, 2015). My expectation of reaching data saturation was after interviewing the fifth participant.

I worked for one of the CAAs in Maryland, where I led the office of planning, evaluation, and research. My personal experience as a researcher was useful to use in-depth interviews with the top executive leaders to collect data for this study. The results

of this research could aid other nonprofit executive leaders in developing processes and procedures and advocating for better policies that reduce fraudulent financial activities.

### **Ethical Research**

During a research study, researchers may face some severe or ethical issues when interacting with participants (Greenwood, 2016). Ethical norms are general considerations that a researcher must consider during research processes to preserve the privacy and confidentiality of participants (Greenwood, 2016). Professional organizations, research centers, and government agencies have regulated ethical standards to protect participants and researchers during a research analysis (Hammersley, 2015; Haron, Ismail, & Abdul-Razak, 2011). It is crucial for both researchers and participants to understand ethical standards for the credibility of the research (Robson & McCartan, 2016). For the credibility of my research, I protected participants' identities by using codes P1, P2, P3, P4, and P5 to classify, identify, and categorize participants.

I also complied with the IRB that is responsible for ensuring that all Walden University researchers comply with the university's ethical standards as well as U.S. federal regulations. IRB approval is required before the collection of any data begins; therefore, I applied for IRB approval before the data collection process started. My IRB approval is 04-08-20-0593098. Obtaining informed consent and maintaining participant confidentiality are requirements for obtaining approval from the IRB (Yin, 2017). For participants' confidentiality and data protection, I protected and secured data in a locked file cabinet for a minimum of 5 years for a potential audit before their destruction. After 5

years from my graduation date, I will use a shredder machine to destroy the interview summaries, notes, and all information related to my research.

After obtaining IRB approval, I selected five participants, sent them an e-mail, and gave them a phone call for the first contact to determine if they agreed to participate in the study. I also sent them an informed consent form to comply with ethical procedures. The informed consent form included the background information of the study, outlined the expectation of participants, and provided details about the intent of the study. The informed consent is typically a disclosure of the purpose of the study, confidentiality of data, and statements that the data collected will be stored in a safe place and used for only the intended purpose of the research. Moreover, I explained to the participants that they could withdraw from the study at any stage of the research without a penalty and assured that the study would not have any adverse impact on participants. Moreover, I did not offer incentives to participants in this study and ensured to avoid ethical and legal consequences when storing and securing my research information. I secured participants' signatures on the informed consent form for their permission in the study. I encouraged participation in this study and highlighted the potential value that could help other nonprofit CAAs to mitigate fraudulent financial activities.

### **Data Collection Instruments**

For this study, I was the primary data collection instrument. The primary data collection method for this qualitative multiple case study was a face-to-face interview with semistructured questions. I chose semistructured interview questions because it gave me the ability to prepare the questions ahead of time. I also consulted organizational

documents, archival materials, and the organization's website content about fraud, as case studies include the collection of data and information from multiple sources (Yin, 2017).

I used an interview protocol (see Appendix A) to create an overall picture of how leaders in CAAs practice fraud reduction in their organizations. The participants included leaders of five CAAs in Maryland. I requested permission from Walden University IRB before conducting data collection (Yin, 2017). I contacted each participant with a written letter and followed up with a phone call to set up the date and time for the one-on-one interview. I asked participants for permission to record the interview and requested they sign the informed consent form. Each participant received a copy of the informed consent form and a demographic questionnaire to better understand and complete the interview questions. With their permission, I conducted and audiotaped the semistructured interviews at the participant's quiet and discrete office to conduct the interview with success. The quality of the data also depends on the credibility of its sources (Mayer, 2015), which is why I audiotaped and transcribed the interviews. The use of open-ended questions also ensured the collection of reliable and valid information (Vaughn & Turner, 2016). During the interview process, I also recorded notes of the answers given. After asking each question, I used member-checking by sending participants a summary of the interview for review to ensure the accuracy and clarity of the participants' answers (Harvey, 2015; Silverman, 2017). For consistency of my data, I also watched and recorded any participant nonverbal cues and interview interruptions.

Researchers use member checking and triangulation to increase the credibility, reliability, and validity of data collection processes in qualitative analysis (Caretta 2016;

Varpio, Ajjawi, Monrouxe, O'Brien, & Rees, 2017). The semistructured interview questions generated rich, dense, and focused information that allowed me to provide a convincing account of the problem under study. Given that the researcher and the interviewees are the interactive sources of information in interview-based qualitative studies, verbal fluency, clarity, and explicatory and analytical abilities are central to the possibility of gathering in-depth information (Jamshed, 2014). The general aim of the one-on-one interview protocol is to adopt an in-depth semistructured or conversational method of interviewing style-allowing participants to speak freely about fraud and fraud prevention programs in their organizations (Silverman, 2017).

For triangulation and knowledge gathering, I gathered and collected additional sources from general information and organizations' websites. I used the organizations' public annual audited financial report to highlight their financial statements that communicate its financial position, organizational programs, financial outcomes, funding sources, and internal controls processes. Generally accepted accounting principles are the measuring component for outcomes of businesses, organizations, and operations. There are sections in the audit report that highlight audit findings or no audit findings and whether the organization has the proper internal controls in place to meet generally accepted accounting principles, mitigating fraudulent activities, and occurrences. The auditors provide an opinion based on their review and certification. The organization's public audit report was one of the reporting tools and measurements for this study.

I used member checking to increase the validity, credibility, and transferability of research techniques. Participants received a summary of their interview for review,



clarification, and suggestions of any other elements that were relevant to the study. Pre-triangulation included the use of findings from the review of documents obtained from their records and archives. Triangulation is typically a strategy for improving the validity and reliability of research findings and strengthens a study by combining methods (Wilson, 2014). In this study, I used data source triangulation to see if what I was reporting carried the same meaning when found under different circumstances.

### **Data Collection Technique**

The primary sources of data collection are observations, semistructured interviews, documentation, and audio-visual sources (Yin, 2017). O’Keeffe, Buytaert, Mijic, Brozovic, and Sinha (2015) argued that using a semistructured interview is more reliable than other sources in collecting information from credible sources at a reasonable cost. I used semistructured interviews with open-ended questions to generate discussions about the topic and ensure the interview aligns with the research question. I used an audio recording device to record the interviews as my secondary support to mitigate biases and ensure the reliability of transcribed interview-responses. The interviews took place in the offices of the participants. Before the one-on-one interviews start, I referred to the interview protocol (see Appendix A) and ensured participants read and signed the informed consent form.

I established rapport through the introductory stage with each participant to stimulate participants’ confidence and willingness to participate in the study. Castillo-Montoya (2016) argued that the aim of using an interview should be to encourage the respondents to speak personally and freely about the topic. Participants responded freely

to seven interview questions from which I collected data to analyze strategies to mitigate fraud in CAAs. I ended the interview with a closing remark to thank each participant. I planned 5 weeks to collect the data from the five executive leaders of the CAAs. I used a Sony recording device recorder for the participant interviews to transcribe and analyze the data collection.

Collecting qualitative data can present some advantages and disadvantages (Yin, 2017). One of the advantages associated with qualitative data is that such data are amenable to member checking and triangulation. Member checking and triangulation allow participants to verify their responses and collecting data through two sources, interview, and archival documents (Birt, Scott, Cavers, Campbell, & Walter, 2016; Carroll & Huxtable, 2014; Suen, Huang, & Lee, 2014). I used documents and archival records obtained from the agencies to validate the findings of the interview. Since interviews were time-consuming, the documents and archive records supported and helped in providing accurate and complete information to shorten the duration of interviews. Preceding each interview process, I ensured the voice recorder was functioning correctly and that the battery or the dry cells were in good condition.

Before the commencement of the interviews, the aim and design of the study included the submission to the Walden University IRB for approval since I was using human subjects (Yin, 2017). Upon receiving approval of the study by the Walden University IRB, I selected study participants using purposive sampling. After the approval by the Walden University IRB, I organized and prepared my interviews. The interviews were open-ended questions to allow participants to respond freely (Appendix

B). I conducted member checking by asking each participant to review the summary of the interview data and ensure the accuracy of the information collected from participants' answers.

### **Data Organization Technique**

Researchers organize data for providing transparency and preparing proper data analysis (Yin, 2017). Yin argued that researchers use data organization techniques to organize data by themes, trends, and patterns for easy understanding and reviewing of data before analysis. Lewis (2015) argued that researchers should organize data to meet research requirements and achievements. At Walden University, the institutional review board members require researchers to secure data during the research processes and keep them secured and locked for 5 years after the date of the research completion for a potential audit (Walden University, 2016). For strategic and security reasons, researchers should not share any information with individuals not involved in the research processes before the official research publication (Greenwood, 2016). For my research, I stored interview summaries, notes, and research journals in different folders with a protected identification code for each participant. I also secured my data on a flash drive and computer hard drive in a locked file cabinet accessible only by myself.

For my research, I verified and sorted the interview responses into categories by themes and sub-themes. For confidentiality, each participant and transcript had an identification code known only by myself. Transcriptions of participants' data were verbatim, except with any data or information that contradicts confidentiality. I removed any conversation that was not relevant to the study through the transcription review

process of the data for accuracy. I used NVivo software to develop codes and themes from raw data directly. Zamawe (2015) revealed that using NVivo software is critical to mitigate research bias when converting interviews into summaries and to codify themes into categories. I also used the journals to record dates and events happenings, as well as folders to keep interview data of each participant separately and in a secured place. For my data protection, I labeled all files, copied files on CDs and flash drives, assigned a secret code to each participant to maintain confidentiality during the research processes, and secured them in a locked place.

### **Data Analysis**

Yin (2017) noted that case study research constitutes an all-encompassing method that covers the logic of design, data collection techniques, and specific approaches to data analysis and interpretation. Yin further emphasized the power of high-quality case study research that focuses on rigor, validity, and reliability. According to Bernard and Ryan (2016) and Patton (2015), the objective of data analysis in qualitative research is to explore the meaning of data and ascertain various dispositions and implementation to present the findings. Van Den Berg and Struwig (2017) argued that data analysis is a paramount technique for searching data patterns and describing research data.

Researchers must have the responsibility to understand the context of data analysis to present reliable findings and convince readers with the findings. As with all data, analysis and interpretation are required to bring order and understanding; data analysis is an interactive process, where data are systematically searched and analyzed to provide an illuminating description of the phenomena under analysis. The process of data analysis is

to assemble or reconstruct the data in a meaningful or comprehensible fashion, in a way that is transparent, rigorous, and thorough, while remaining ‘true’ to participants’ accounts (Joslin & Müller, 2016). During data analysis, researchers use the data triangulation method to provide additional sources for improving accuracy, credibility, validity, and reliability (Okoe & Boateng, 2015). Data analysis is an iterative or recurring process that leads to the creativity or development of new ideas to clarify the meaning of data (Cope, 2014).

Through the processes of my research, I used methodological triangulation to collect data from the interview, companies’ documents, and observations. Researchers use methodological triangulation to improve research quality, accuracy, validity, and reliability (Morse, 2015). I collected my information from interviews with participants, governments’ official sources, and organizations’ reports to triangulate. From data collected from interviews, I used NVivo software to develop codes and themes from which I analyzed the strategies that the CAAs leaders used to mitigate fraud. As suggested by Saldana (2016), researchers need to focus on data quality rather than quantity because data quality in qualitative analysis leads to credible findings. For an excellent accomplishment of my research, I referred to Yin’s (2017) five steps in data analysis. Per Yin, to present a sound analysis, researchers need: (a) collect data, (b) regroup data, (c) interpret data, (d) analyze data, and (e) present the findings. For my research and data analysis processes, I listened to the tape recordings several times and identified themes or patterns. Then, I organized the data into categories and by question to see patterns and connections between the categories. After that, I interpreted where I

should use the themes and connections to explain my findings. The analytic processes were initial coding, adding comments and reflections, memos, looking for patterns, themes, relationships, sequences, and differences. Finally, I explored patterns, elaborated generalizations of themes to the fraud triangle theory, and presented my findings.

### **Reliability and Validity**

Reliability and validity are crucial elements that researchers should focus on to ensure the credibility of the study (Yin, 2017). Noble and Smith (2015) argued that researchers could ensure validity by reflecting the view of the phenomenon studied and reliability by presenting the consistency of the findings. The concepts of reliability and validity may differ in a qualitative or quantitative method. Yin (2017) argued that reliability and validity mitigate bias in research and promote transparency. For this qualitative study, I used triangulation and member-checking to ensure reliability and validity by collecting, organizing, and analyzing various sources of information. I also assessed research quality by referring to the concepts of dependability, credibility, confirmability, and transferability.

#### **Reliability**

Researchers refer to reliability to enhance the research's dependability. Noble and Smith (2015) revealed that the dependability of qualitative research studies includes the use of rigor, reliability, and validity. In qualitative research, prolonged engagement, persistent observation, and detailed description could lead to the rigor of a study (Lub, 2015). Bengtsson (2016) argued that researchers use reliability to select, justify, and apply research strategies, procedures, and methods explained using the audit trail to

evaluate the effectiveness of the study. I created an audit trail for any person who would like to review my study process. For the dependability of my research, I used member-checking. I sent a summary of the interview transcript for review to participants to ensure the accuracy of their answers and to mitigate any possible bias.

### **Validity**

According to Marshall and Rossman (2016), the concept of validity in the qualitative study implies a comparison to the concepts of credibility, trustworthiness, and authenticity. The study is valid if the findings are accurate or correct, not only for the researcher, but also for the participants and the readers of the study. Fusch and Ness (2015) stated that validity is crucial in qualitative research attesting to the credibility and accuracy of the findings. Researchers should mitigate bias in enhancing the validity of the research results. For the study to be valid and trustworthy, researchers must combine credibility, transferability, confirmability, and data saturation (Yin, 2017).

**Credibility.** To enhance credibility, researchers can use triangulation and member checking (Yin, 2017). Brooks and Normore (2015) revealed that researchers could use triangulation and member-checking to mitigate bias by ensuring the proper identification and description of the phenomenon analyzed. Credibility in qualitative research is critical to prove trustworthiness (Hussein, 2015). For my research, I ensured credibility by collecting and aligning data with the primary goal of the study. I also used triangulation with interview summaries, organizations' websites, and government official sources; and member-checking to strengthen the credibility of my study.

**Transferability.** Transferability is the ability to determine if different or similar research findings exist in other studies (Hadi & Closs, 2016). Morse (2015) argued that researchers must provide detailed descriptions to convince readers to make inferences about the findings by providing readers with a rationale and rich details on the case study. For my research's transferability, I provided specific details about data collection and analysis to enable readers to determine if similar findings or results exist in other studies. I also used the principles of data saturation to enable readers to understand the originality of the findings. Fusch and Ness (2015) noted that data saturation is the process of conducting interviews until a researcher finds that there are no new data, themes, and codes to add and use in the data collection processes.

**Confirmability.** Yazan (2015) argued that using NVivo software ensures a research's confirmability by providing the interpretation of data collection and analysis. Confirmability is critical for readers to approve the findings of the research (Cope, 2014). Marshal and Rossman (2016) suggested that researchers must convince readers to confirm the conclusion of the study. For my research, I verified the confirmability of my study by providing real evidence and cases of the impact of fraud on the CAAs. I also used methodological triangulation by exploring data from semistructured interview questions, organizations, and public information.

**Data saturation.** Researchers use data saturation to show the quality, credibility, and transparency of the research (Senden et al., 2015). As suggested by Senden et al., my goal was to avoid data redundancy and continuously analyze information from interviews and organizations' documentation until I reached data saturation. Fusch and Ness (2015)



noted that data saturation is the process of conducting interviews until a researcher finds that there are no new data, themes, and codes to add to the data collection processes.

Saunders et al. (2018) echoed that researchers should continue to collect information until reaching data saturation. For my study, I ensured data saturation by continuing to collect data with additional interviews until no new themes, codes, or concepts emerge during data analysis processes.

### **Transition and Summary**

In Section 1, I presented the background, problem statement, purpose statement, nature of the study, research question, and interview questions related to my study. I also introduced the conceptual framework, operational definitions, assumptions, limitations, delimitations, and significance of my study. Further, I presented the review of the professional and academic literature, which described the concepts of fraud triangle theory and addressed causes, consequences, and impacts of fraud on nonprofit organizations' performance.

In Section 2, I presented a restatement of the purpose statement, the role of the researcher, participants, and research method and design. I also described the population and sampling, ethical research, data collection instruments and techniques, data organization and analysis, and discuss data consistency and credibility in qualitative analysis. In Section 3, I present the findings, the implications for social change, and the recommendations for nonprofit leaders to mitigate fraud in their organizations. I also formulate recommendations for further research and presented the conclusions of my study.

### Section 3: Application to Professional Practice and Implications for Change

#### **Introduction**

The purpose of this qualitative multiple case study was to explore the strategies that some nonprofit CAA executive leaders use to reduce fraudulent financial activities. Fraud negatively affects business performance and exploring the impacts of fraud in nonprofit organizations could lead to improved relationships between nonprofit managers, government agencies leaders, and private or official contributors (Deslatte, Schatteman, & Stokan, 2019). The consequences of fraud in nonprofit organizations may lead to decreased trust among stakeholders and individuals' well-being in the local communities (Hou, Zhang, & Guo 2020). Finding strategies to mitigate fraud in the CAAs made this study significant and relevant for future businesses. For data collection, I conducted semistructured interviews with four top executive leaders of the CAAs located in Maryland and performed data triangulation for my data analysis.

Based on the conceptual framework of the fraud triangle theory, the emergent themes came from participants' transcribed interviews, notes, memos, internal company's documentation, government documents, and the literature reviews. After transferring data into NVivo 12 and using thematic analysis, I found three primary coding themes and six subthemes related to the strategies needed for mitigating fraudulent behaviors in the CAAs. The primary themes were (a) ethics and regulatory compliance, (b) transformational leadership style, and (c) managerial skills. The sub-themes were (a) honesty and loyalty, (b) stakeholders' attitudes, (c) hiring and training, (d) adaptation to change, (e) business skills and experience, and (f) understanding business practices. For

validity and reliability, I used member checking by obtaining and analyzing participants' summaries validation and applied methodological triangulation by collecting additional information from organizations financial reports for review and verification, and public information about nonprofit organization records. My findings may help leaders or managers of the CAAs to mitigate and prevent fraud, improve business performance, and sustain organization longevity. I also provide some critical thinking and insights for the further analysis of fraudulent behaviors in organizations.

### **Presentation of the Findings**

The overarching research question for this research study was “What strategies do nonprofit CAA executive leaders use to reduce fraudulent financial activities?” I used a qualitative multiple case study, which was useful to collect information from different participants who experienced the phenomenon. A multiple case study design was crucial to better understand the phenomenon and get answers to who, why, when, and how questions about fraudulent behaviors. For data collection, I conducted semistructured interviews, which included seven open-ended questions (see Appendix B). Participants included four top executive leaders of CAAs located in Maryland. For confidentiality, I coded my participants as P1, P2, P3, and P4 and their companies as C1, C2, C3, and C4.

To mitigate research biases, I used an interview protocol, member checking in the data collection and analysis processes, and adhered to the Belmont Report Principles, which recommend treating during the research processes participants with respect, justice, and beneficence. Member checking helped me clarify the meaning of communications by the participants and agree with the content of their summaries after

receiving their feedback, which also helped with research validity and ensuring the reliability of my research. Methodological triangulation was also helpful in the process of data collection and analysis by providing more details about my research processes and aligning my data with the primary research goal. For data triangulation, I used interview summaries, the companies' financial reports and documents, and nonprofit organization public records from official sources.

For data analysis, I entered interview recordings, interview summaries, and notes into NVivo 12 to identify nodes, themes, and subthemes. The results from NVivo 12 and my analysis indicated three major emerging themes, which consisted of (a) ethics and regulatory compliance, (b) transformational leadership, and (c) managerial skills. The themes indicated the strategies needed for top managers or leaders of CAAs to mitigate fraud in their organizations. Data saturation enhanced trustworthiness and validity by ensuring that participants responded to all questions, and there was no new idea, code, theme emerging during the research. After interviewing the fourth participant, I reached my data saturation because there was no new information emerging to add to my research.

The results of my data analysis sorted by NVivo 12 indicated that participants supported that financial pressure, lack of ethics, and weakness of controls were among the primary causes of fraud. I sorted through and analyzed the data results to reach the conclusion that the fraud triangle theory was a crucial managerial tool to promote positive behaviors and mitigate fraud in nonprofit organizations. All four participants concluded that mitigating fraudulent behaviors are critical to ensure trust among stakeholders and

organization success. All participants admitted that promoting business ethical norms and complying with organization regulations and policies contributed to prevent the loss of money or other assets.

Participants also indicated that the strategy to promote internal controls by using internal auditors to check cash receipts, pay stubs, and inventories was crucial to detect and prevent accounting errors or fraud. Moreover, participants added that hiring external controllers or auditors to conduct an independent analysis of their accounting records or financial statement helped to increase the accuracy of financial records, detect, and prevent fraud. P1 and P2 stated that fraud affects the organization's reputation and presented their strategies to mitigate fraud in the workplace by using, for example, the background check before hiring new employees to ensure that they hire honest and loyal people. Managers should mitigate fraud in the workplace to increase a company's reputation and customer satisfaction (Lokanan, 2015).

All participants also argued that increasing transparency and promoting full disclosure of financial statements contributed to mitigate fraud and increased stakeholders' satisfaction. For example, P2 indicated that promoting employees to have access to the content of financial reports and encouragement them to share their feedback for any eventual issues related to fraud was crucial to mitigate fraud and promote the credibility of the organization. P1 and P4 added that presenting a detailed financial report to stakeholders allowed them to understand how their donations influenced the organization's goals and increased transparency over fraud. Moreover, participants stated that they shared the disclosure of financial reports, allowing employees to understand the

impacts of fraud and be aware of fraudulent practices. The data analysis overall indicated that combining the fraud triangle theory with ethics and regulatory compliance, transformational leadership, and managerial skills were the primary strategies to prevent and mitigate fraud in nonprofit organizations.

### **Theme 1: Ethics and Regulatory Compliance**

The first emergent theme was ethics and regulatory compliance. Ethics and policies are guidelines for employees to know and understand what is right to do according to an organization's core values and beliefs (Downe, Cowell, & Morgan, 2016). Increasing ethical and regulatory compliance leads to business effectiveness (Cumming, Hou, & Lee, 2016). Based on the fraud triangle theory, the opportunity to commit fraud may come from the lack of knowledge of ethical standards and business regulations (Jarozlaw, 2016). I analyzed the data from transcribed interviews, participants' notes, organizations' documentation, and government documents of P1, P2, P3, and P4 and found that compliance with ethics and regulations were strategic to mitigate fraud in nonprofit organizations (see Table 2).

From my literature review, I found that to prevent fraud and sustain activities over time, nonprofit organization leaders should also implement ethical and regulatory compliance to increase customers' satisfaction. Stakeholders such as customers, employees, and donors must be satisfied to sustain nonprofit organizations' success (Madura, 2015). Responses for ethics and regulatory compliance came from Interview Questions 1 and 2, which focused on strategies to reduce fraudulent financial activities.

The responses from all participants indicated that nonprofit leaders used the concept of fraud and ethics to increase incomes and sustain their organizations for a long time.

Participants argued that ethics and regulatory compliance were essential to mitigate fraud and attain employees' satisfaction while they understand their roles and obligations in reaching the organization's mission. Previous research has also indicated that business leaders need to comply with both institutional regulations and ethical standards to remain competitive (Girgenti & Hadley, 2016). P1, P2, and P3 presented their business strategies in which they described the positive impact of regulatory compliance. For example, P1 stated that "There is a written policy in place for record retention and destruction, and the organization has a written procurement and whistleblower policies that have been approved by the governing board." P2 echoed, "We are constantly assessing the policies and procedures in terms of likelihood and magnitude of impact, determining a response strategy, and magnitude process." P4 added, "Improving practices of ethical behaviors contribute to discouraging the conflict of interest and fraud." Further, P3 added, "Unethical actions or the appearance of unethical actions are unacceptable under any conditions." The findings also showed that ethical and regulatory compliance is critical to avoid penalization, which can affect organizations' success. Participants argued that regulatory compliance increases honesty and loyalty among stakeholders. Participants also recommended that nonprofit leaders should use fraud and ethical theories as managerial tools to improve transparency.

The emergent theme of ethics and regulatory compliance aligned with the fraud triangle theory conceptual framework and the body of knowledge from the literature

review in this study. Based on the fraud triangle theory, promoting ethics and regulatory compliance allows employees to promote positive behaviors and practices, which is crucial for mitigating fraud (Adelstein & Clegg, 2016). All participants agreed that combining ethical value and regulatory compliance in their business practices with honesty and loyalty and stakeholders' satisfaction was critical to improve organizations' success and mitigate fraud in nonprofit organizations.

**Honesty and loyalty.** Honesty and loyalty are critical attitudes that managers must promote to increase stakeholders' satisfaction (Ferrell, Harrison, Ferrell, & Hair, 2019). Honesty and loyalty are the primary factors that contribute to increasing trust and satisfaction between organization leaders and employees (Parmar, Keevil, & Wicks, 2019). P1 and P3 stated that increasing honesty and loyalty led to transparency and fraud prevention. P3 added that "We disclose in our monthly report all financial expenditures and receipts to promote honesty and increase employees' loyalty." Moreover, P2 and P4 noted that building trust increased confidence, and employees feel free to ask questions or suggest new ideas that could contribute to promoting ethical value and mitigate fraud. For example, P2 stated that "We realize that a strong board of directors with transparency, oversight, and accountability sets the tone and is the first defense against fraud." P4 also echoed that "We believe that being honest and loyal to the organization we work for is crucial to build a strong relationship between employees and employers." Based on the fraud triangle theory, honesty and loyalty are critical factors for improving business practices and preventing fraud (Hui, Chih-Wen, & Yi-Han, 2015).



**Stakeholders' attitudes and behaviors.** Nonprofit organization leaders should promote good governance to increase trust among stakeholders and mitigate fraud (Dzomira, 2014). Nonprofit leaders or managers have the mission to assess employees', donors', and government officials' attitudes and behaviors to their organizations to ensure the credibility of the organization when collecting and managing funds or providing services to customers (Dzomira, 2014), which the findings from the interviews aligned with (see Table 2). P2 and P4 reported that analyzing behaviors enabled their companies to understand the impact of fraud on the organization's success. P2 added that "We use a short monthly survey to encourage stakeholders' feedbacks to better learn and understand their needs and improve the quality of our services." P2 and P4 argued that listening with attention to stakeholders allowed their companies to increase financial resources, promote customer service, improve service quality, and detect fraud. P1, P2, and P4 suggested that increasing transparency among stakeholders when presenting financial reports and other business activities is critical to increase trust and motivate their feedbacks about fraudulent behaviors. Promoting, for example, transparency, can mitigate fraud because fraudsters would not have the pressure, opportunity, or rationalization to commit fraudulent behaviors once the organization leaders make information public (Pollman, 2020). Based on the tenets of the fraud triangle theory, promoting stakeholders' positive attitudes, customer service, and service quality for increasing the well-being of people in the local communities is crucial to gathering information that could lead to mitigating fraud.

Table 2

*Ethics and Regulations Compliance*

Nodes/Themes	Number of participants	Participant engagement (%)
Honesty and loyalty	4	100
Stakeholders' attitude and behavior	3	75

**Theme 2: Transformational Leadership Style**

The second emergent theme was a transformational leadership style.

Transformational leadership leads to integrate all followers as a part of the organization, and its direct or indirect psychological impacts on employees are important to promote job satisfaction (Peng, Liao, & Sun, 2020). Additionally, based on the fraud triangle theory, promoting good communication and improving job satisfaction and organizational justice is critical to mitigating and preventing fraudulent behaviors (Greenwood, 2016). For example, P2 and P4 argued that the use of inspiration, empathy, and confidence to align followers in the vision and mission of their organization contributed to increase stakeholder's confidence and prevent fraud. P1 echoed that, "My role as a manager is to remind during daily meetings that we are all together for the common goals which are success and longevity." The findings from the participants' interviews indicated that an appropriate transformational leadership style is essential for hiring devoted and motivated employees to sustain the organization's productivity and longevity.

Further, managers who hire and train devoted employees have the chance to promote productivity and accomplish the company's vision and mission (Breevaart &

Bakker, 2018; Frieder, Wand, & Oh, 2018; Nelissen, Forrier, & Verbruggen, 2017). P2 and P3 noted that their leadership styles enabled their employees to understand the organization's mission and goals. For example, P3 added, "New hire orientation and human resources reviews of the organization helped employees to understand why organization leaders must mitigate fraud to increase donors' satisfaction." P1 and P2 also stated that using background checks in the hiring process enabled the company to recruit good and devoted employees. P2 said, "The company uses the E-Verify system to verify job seekers information from the government database to avoid hiring illegals or criminals." P3 added that hiring good employees is critical to mitigating fraudulent behaviors. P1 and P4 also argued that promoting new employee training and employee satisfaction surveys were strategic to circumvent the rationalization to commit fraud.

Transformational leadership is a supportive managerial tool that effective managers should use for their organization's effectiveness (Amor, Vázquez, & Faíña, 2020). Based on the tenets of the fraud triangle theory, transformational leadership is critical for mitigating fraud by hiring and training motivated, skilled, and devoted employees (Peng & Sun, 2020). Promoting the adaptation of change to increase satisfaction among stakeholders should be a crucial factor that effective managers need to mitigate fraud by promoting the denunciation of fraudulent behaviors.

**Hiring and training.** Employees are among the primary sources of production and valuable assets that promote productivity. In nonprofit organizations, executive leaders or managers need to ensure the hiring process and job training are effective to recruit employees who will not be involved in fraudulent practices (Madura, 2015). Some

researchers argued that promoting employee training is strategic to increase knowledge, skills, and adaptation to change in an organization (Nellissen, Forrier, & Verbruggen (2017). Moreover, nonprofit CAA leaders need to be transformational leaders to increase hiring and training practices, monitor and assess employees' skills, identify the causes of fraud and plan the best measures to mitigate fraud in their organizations (Madura, 2015). The results of data analysis indicated that participants used a transformational leadership strategy to hire and train employees to better understand business practices and the implications of fraud in the organization.

All four participants agreed that hiring and training employees lead to promoting business practices and fraud prevention. Three out of four participants indicated that their strategies to work as a team to guide the change through their inspiration contributed to use for instance managerial software and the Internet to hire the best employees, planned organizational planning, and monitor organization activities in real-time. P1, P3, and P4 presented their training plan and budget to ensure their commitment to training activities. P2 and P4 also presented their strategy to use background and drug tests to ensure the quality and morality of new hires. Moreover, P3 added that "We prefer and encourage hiring employees locally because it is easier for the company to verify the credentials of a local employee." Based on the tenets of the fraud triangle theory, it becomes clear that bad employees may commit fraud (Greenwood, 2016). As nonprofit organizations are like volunteer services, managers should use transformational leadership to mitigate the opportunity, rationalization, and incentive to commit fraud by hiring credible and vetted people to prevent fraud.

**Adaptation to change.** In the current nonprofit organization’s workplace, managers need to understand and adopt change. The rapid evolution of technology and business regulations, make change irreversible to compete, increase customer service, or act efficiently in real-time (Garba, 2017). Isal, Pikarti, Hidayanto, and Putra (2016) argued that using for instance technology innovation allows managers to assess controls, inventories, any other business activities at a low cost, and prevent fraud. The findings from interviews aligned with Isal et al.’s statement and indicated that participants used adaptation to change strategy to reduce fraudulent behaviors (see Table 3). P1, P3, and P4 noted that adopting changes in dealing with fraudulent practices had a positive impact on mitigating fraud. P1 stated that “The organization used an automated control electronic system to monitor all agency materials and increase fraud prevention and detection at any time.” P3 added, “Using new technology enabled to monitor actual budget vs financial performance and oversee the reserve of funds in real-time.” Based on the tenets of the fraud triangle theory, adaptation to change in nonprofit organizations is crucial to detect and prevent fraudulent behaviors.

Table 3

*Transformational Leadership Style*

Nodes/Themes	Number of participants	Participant engagement (%)
Hiring and training	4	100
Adaptation to change	3	75

### **Theme 3: Managerial Skills**

The third emergent theme was managerial skills. Managerial skills sub-themes were business skills, experiences, and understanding of business practices. According to the fraud triangle theory, managers and organization leaders should have the capability and ability to efficiently lead an organization (Suryandari, Yuesti, & Suryawan, 2019). Gordian and Evers (2017) echoed that the role of effective leaders or managers is to prevent fraud and promote success. A successful leader or manager should have managerial skills to learn from failure, experience, and to make flexible changes that fit the organization's goals. Corruption and fraud have negative impacts on organization success, and managers should have efficient managerial tools such as technology innovation, internal and external controls, and periodic business evaluation to improve transparency and prevent fraud (Gordian & Evers, 2017).

The results of data analysis indicated that participants used their knowledge, experience, and skills to monitor business activities, analyze customers' behaviors, and mitigate fraud. The theme management skills emerged from interview questions 4, 5, and 6, in which participants explained strategies they used to circumvent pressure, opportunity, and rationalization for employees to commit fraud. The theme management skills aligned with the fraud triangle theory because managers must understand business practices before planning strategies to improve management weaknesses or detect fraud. All four participants affirmed that the fraud triangle theory included critical elements related to management skills. For example, P1 stated, "Using audit and organizational skills contributed to complete the IRS Form on time and correctly, and also conduct the

performance appraisal of the CEO/Executive director within each calendar year.” P2 and P3 used their managerial skills to improve employees’ payroll and track employees’ attendance every day by using for instance Raiser’s Edge software. P1 and P4 added that using internal and external audits regularly allowed the organization to identify financial data misalignment. P1 added, “The organization conducts an annual audit, which is completed by a certified public accountant on time in accordance with Title 2 of the Code of Federal Regulations, ...and the organization’s auditor presents the audit findings to the governing board.” Previous authors argued that managers or leaders should have a basic understanding of business operations and regulations to reach success (Lynch, 2016). All participants suggested increasing internal and external audit practices is paramount to increase transparency and detect fraud. The findings were substantial with the requirement to use management skills as a strategic tool to mitigate fraud in nonprofit organizations.

**Business skills and experience.** Participants agreed that business knowledge, experience, and skills were among the factors that contributed to identify, prevent, and mitigate fraud (see Table 4). Mlambo, Mubecua, Mpanza, and Mlambo (2019) argued that a successful leader or manager must have business skills such as competency, problem-solving capability, adaptability, self-direction, initiative spirit, critical thinking, innovative skills, and communication skills. P1 and P2 noted that their business skills and experience were critical to promote financial activities and prevent fraud. P2 added that “My personal experience of working for many years as a manager and business skills acquired from my education helped me to implement an effective internal control form

any input to output activities.” P1 and P4’s statements aligned with the findings of Bennett and Hatfield (2018). Bennett and Hatfield noted that nonprofit leaders, including pastors and religious leaders, should have audits skills and experience to ensure that financial controls and fraud prevention are adequate. P1 added that “My experience of dealing with auditors contributed to understanding the implications of audit findings on organizational success.” Moreover, P2 and P4 echoed that their business skills and experience of working for many years in a nonprofit organization enabled them to be aware of fraudulent practices and use his knowledge and skills to prevent fraud at all business levels of activities. As stated by Ho and Mallick (2017) having and using business skills and experiences is paramount to mitigate fraud in nonprofit organizations and meet organizational goals. Based on the fraud triangle theory, having managerial and business skills will be crucial for managers to prevent and mitigate fraud in nonprofit organizations.

**Understanding business practices.** Business operations or practices are operational activities that contribute to promoting organization success (Gottschalk, 2016). Per Gottschalk, controlling donor funds, grants, and fundraising in receipts and expenses is an important business practice that should always be maintained in nonprofit organizations to assess risk management and prevent accounting irregularities. P1 and P4 stated that understanding business practices is critical to detect fraudulent behaviors and prevent financial losses. P4 added that “My business background and profile allowed me to plan in advance employee meetings, materials acquisitions, funds collections, seminars with donors, and government grants collection.” Moreover, because of financial



constraints, P2 and P3 used business practices to regularly permutate employees at some positions to allow them to learn and understand each position and be aware of the impact of fraud. This strategy aligned with the fraud triangle theory and the analysis of McDonnell and Rutherford (2018), who argued that understanding business practices is crucial to promote positive organizational behaviors and contribute to increasing stakeholders' satisfaction.

Table 4

*Managerial Skills*

Nodes/Themes	Number of participants	Participant engagement (%)
Business skills and experience	3	75
Understanding business practices	4	100

The overall findings of this qualitative multiple case study aligned with the literature review and the conceptual framework of the fraud triangle theory. The results revealed that using honesty and loyalty, transformational leadership style, and managerial skills strategies was crucial and strategic for top nonprofit leaders to mitigate fraudulent behaviors in their organizations. Nonprofit managers or leaders may have different views and strategies about mitigating fraudulent behaviors; however, finding appropriate strategies is crucial to prevent fraud and ensure organization longevity. Nonprofit leaders or managers who are struggling to improve transparency, increase productivity, and mitigate fraud should explore the advantages of using the fraud triangle theory and the results of this study to understand the impacts of fraudulent behaviors, detect and prevent fraud, and promote their organizations' success.

### **Applications to Professional Practice**

The purpose of this research study was to explore strategies nonprofit CAA executive leaders use to reduce fraudulent financial activities. The findings of this research were appropriate for understanding the causes and impacts of fraud in nonprofit organizations located in Maryland. According to Nanduri, Jia, Oka, Beaver, and Liu (2020), business leaders or managers need effective strategies to mitigate fraud and ensure long-term success. Using a qualitative multiple case study with semistructured interviews and document analysis; I conducted interviews with four top executive leaders of nonprofit CAAs located in Maryland. I found three primary themes and six sub-themes using NVivo 12 coding and data analysis. The primary themes consisted of (a) ethics and regulatory compliance, (b) transformational leadership style, and (c) managerial skills. The sub-themes consisted of (a) honesty and loyalty, (b) stakeholders' satisfaction, (c) hiring and training, (d) adaptation to change, (e) business skills and experience, and (f) understanding business practices. Managers or leaders of nonprofit organizations should build their strategies based on the findings of this study to prevent and mitigate fraudulent behaviors. As stated by Omair and Alturki (2020), fraud affects an organization in different aspects, and it should be understood in its context of time, location, resources, and function to better mitigate it. Based on the fraud triangle theory, the attitudes and characteristics of nonprofit leaders are crucial to effectively prevent and mitigate fraud within an organization (Cressey, 1953).

Data collected from interviews indicated that fraud in nonprofit organizations is becoming a critical business concern for managers to promote business credibility and

sustainability. Moreover, combining ethics and regulatory compliance with honesty and loyalty and stakeholders' attitudes is strategic to motivate managers to build trust and increase confidence among partners. Saha, Cerchione, Singh, and Dahiya (2020) echoed that to promote business performance, organizational managers should promote ethical leadership and corporate social responsibility. Using a transformational leadership style with effective hiring and training and adaptation to change is crucial for managers to involve all partners or stakeholders to adhere to the organization's mission and vision. Further, using managerial skills with strategic business experience and the ability to understand business practices is also critical and constructive for organization development. Nonprofit managers or leaders can use the findings of this study to prevent fraud and predict a better future of their organization. The findings are also practical solutions for nonprofit leaders or managers who are struggling to mitigate fraud and improve management leadership. Top managers or executive leaders might also identify effective business strategies to improve internal controls, organizational changes, and monitoring business operations that provide oversight and enhancement of service deliverables while avoiding the loss from fraudulent activities (Sibanda, Zindi, & Maramura, 2020).

### **Implications for Social Change**

The implications for positive social change include the potential for nonprofit executive leaders or managers to develop processes and procedures that advocate for better policies, strategies to reduce fraudulent financial activities, promote corporate responsibility, and influence the performance and positive outcomes of business

activities. Fraud affects organization success, and failure to mitigate or ban fraud could affect organization viability. The viability of a nonprofit organization may also have many impacts on other stakeholders such as donors, employees, and government officials to promote other social activities in the local communities (Lueg & Radlach, 2016). Per Lueg and Radlach (2016), leaders who catalyze the development and sustainability of social programs such as education could promote employees, families, and all the community members' satisfaction. To promote social change, Lee (2018) encouraged organization leaders to promote social activities that may generate positive economic value and contribute to improving the well-being of the local community members. The findings of this study could also help nonprofits leaders of the community action agencies to improve the success of programs such as Head Start, tax returns preparation, adults and children literacy in local communities, and other social services.

### **Recommendations for Action**

Nonprofit business scandals and other fraudulent acts negatively affect organizational functioning, service delivery, and board governance (Zona, Minoja, & Coda, 2013). Kummer et al. reported that nonprofit organization fraud cases increased by 20% in the United States between 2010 to 2015, which amounted to about \$40 billion of lost revenue each year. Per Kummer et al., the high rate of fraudulent acts or behaviors affect organization reputation, productivity, and survivability. Ge et al. echoed that understanding the impacts of fraud on nonprofit organizations helps to increase organization long-term financial value and reduces the negative image of the organization by donors, government officials, and community members. Mitigating fraud makes

organizations resilient, so organization leaders will be able to plan and sustain organization longevity and increase social program activities (Gordian & Evers, 2017).

The findings from this study indicated that for nonprofit leaders to promote their social programs, they need to comply with ethical values and business regulations, use a transformational leadership style to unify employees for the same vision, and have management skills to promote and control effectively their business activities. These three recommendations should be beneficial for nonprofit leaders or managers who are struggling to mitigate fraud and potential small business entrepreneurs who are planning to launch new nonprofit businesses. All participants agreed that ethical values and regulatory compliance have a positive impact on detecting and mitigating fraud. I recommend compliance with ethics and regulations to increase trust and transparency between leaders and employees. Second, to motivate employees, nonprofit organization leaders must use a transformational leadership style and have managerial skills to lead efficiently. As described by Cressey (1953), mitigating fraud is critical for improving organizational performance and sustainability. The results of this study indicated that nonprofit organization leaders who used their managerial skills have the chance to prevent and reduce fraudulent behaviors in their organizations.

The findings of this study are crucial to nonprofit managers or leaders to sustain productivity and longevity by mitigating fraudulent behaviors. I recommend scholars, business analysts, researchers, small nonprofit organizations owners, small business leaders, managers, entrepreneurs, and government agencies leaders to promote the findings of this study by organizing academic and business conferences and business

forums to promote the perception and impacts of fraud in organizations. As my research will be available in the ProQuest database for scholar researchers and students to review, I will disseminate my study by preparing and providing a one- or two-page summary of my research findings and recommendations to all participants. I will contact local schools, churches, Small Business Administration, and the Nonprofit Organization Association to organize conferences and present my findings. I will also publish my research in the local journal to reach other organizations or people who will be interested in my study.

### **Recommendations for Further Research**

The participants in this study included only nonprofit leaders located in Maryland, and who have been in business for more than 5 years. The primary limitations of this study resulted from the (a) limited number of interview participants that could provide a lack of perspectives on the topic of fraudulent financial activities, (b) the design of the case study selected to conduct the study, and (c) focus of conducting interviews with participants with the responsibility of organizational administration and the implementation of internal control measures to provide strategies to reduce fraudulent financial activities in CAAs. For further research, I recommend expanding the sample size and qualifications to explore strategies nonprofit organization leaders or managers use to mitigate fraud, as well as in other small business industries. Secondly, I recommend researchers use different research methodologies and designs to collect and analyze the impact of fraud on nonprofit and profit organizations to increase business policies and practices. Finally, future researchers should explore the impact of fraud on

organizations by collecting data from those who are not in the top managerial positions, such as cashiers, accountants, controllers, and mid-managers to receive another perspective of their experience and phenomenon.

### **Reflections**

The long DBA study process was a great learning experience. I gained knowledge and research tools from writing literature reviews and performing data analysis, especially about fraud in nonprofit organizations. The purpose of my doctoral journey at Walden University was to become a real promotor of positive social change. The analysis and impact of fraudulent behaviors in nonprofit organizations were crucial to learn and understand effective business strategies that lead to fraud prevention and promotion of organization productivity and longevity. Moreover, as a novice scholar-practitioner, it was challenging to identify and mitigate research biases and deal with some participants who were top organization leaders. Some participants were reserved about providing some confidential documents because they thought I would exploit them for other purposes.

Despite all these challenges, I complied with the IRB policies and was able to conduct and collect the information needed for my study. The findings of this research allowed me to understand nonprofit leaders' strategies used to mitigate fraudulent behaviors and that promoted organization sustainability. The findings could also be beneficial for small nonprofit organization owners, entrepreneurs, current nonprofit leaders or managers, government agency leaders, and academic researchers or scholars. I certainly also believe that the results of this research study are crucial and useful for other

organizations such as church leaders to understand the motivation for an individual to commit fraud. Furthermore, the findings of this study have increased my interest to become a consultant for nonprofit organizations.

### **Conclusion**

Nonprofit CAAs have a mission to promote social change and economic development. The high rate of fraud in nonprofit organizations affects the viability of the business. The pressure, rationalization, and opportunity of the individual to commit fraud have increased in both profit and nonprofit organizations and affect organizational productivity. Nonprofit organization leaders in the CAAs need strategies to reduce or mitigate fraudulent practices to promote organizational success and sustainability. The purpose of this research was to explore strategies nonprofit leaders use to mitigate fraudulent behaviors in their organizations. Understanding the impact of the fraud triangle theory promotes awareness about fraudulent practices in organizations, ensures organization success, and increases confidence among donors, employees, and government agency leaders. Preventing fraudulent behaviors contributes to ensure long-term financial goals.

Fraudulent practices have become more visible in the current business context because of the pressure, rationalization, and opportunity that individuals have. Consequently, using Cressey's fraud triangle theory, the findings of this study indicated that managers or leaders of nonprofit organizations must implement their strategies to mitigate fraud at all business levels and should involve all stakeholders in meeting organization goals and accomplishing organization mission. Cressey's fraud triangle



theory does not only provide strategies to detect and analyze fraud, but also provide crucial strategies to avoid, prevent, and eliminate fraud to increase business performance. Nonprofit organization leaders should understand business practices and managerial tools to develop effective strategies to sustain their organization for the long-term.

The findings of this study revealed three major effective strategies nonprofit organization leaders use for mitigating fraudulent behaviors in their organizations. The effective three strategies focused on: (a) complying with ethics and regulations to promote transparency in doing his job at any time at work, (b) using transformational leadership to lead efficiently followers and motivate employees to meet organization vision and mission, and (c) using managerial skills to preserve organization assets, promote organization success, and increase the organization's value and image. Current nonprofit managers or leaders who are struggling to mitigate fraud, academic researchers, and scholars, potential entrepreneurs, and government agency leaders can use the findings of this study to learn and understand the impact of fraudulent practices on organizations. The findings may also be constructive to implement business policies or strategies to sustain organizational success and longevity. Further, the findings may contribute to promote a positive social change by supporting the success of programs such as Head Start, tax preparation, adults and children education, and enhancing the economic development for the local communities.

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## Appendix A: Interview Protocol

1. I will introduce myself to participants
2. I will recap the purpose of the study, answer any questions, and make sure that each participant signed the consent form.
3. I will record the interview with an audio recorder.
4. I will transcribe the interview (Verbatim) as a second support.
5. I will create a summary of each interview.
6. I will discuss member-checking with participants to confirm the accuracy of the interview.



## Appendix B: Interview Questions

1. What strategies have you used to reduce fraudulent financial activities in your organization?
2. How do you determine if your strategies used to reduce fraudulent financial activities are working?
3. What strategies were the least effective to reduce fraudulent financial activities?
4. What, if any, strategies do you use to circumvent the pressure to commit a crime in your organization?
5. What, if any, strategies do you use to circumvent the opportunity to commit a crime in your organization?
6. What, if any, strategies do you use to circumvent the rationalization to commit a crime in your organization?
7. What other information can you add about your strategies to reduce fraudulent financial activities?