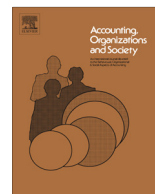




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## The construction of the risky individual and vigilant organization: A genealogy of the fraud triangle

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### A B S T R A C T

This article examines how a vision of organizational fraud has been constructed around a particular technology, the fraud triangle, which was initially developed in the aftermath of the creation of the fraud examination discipline. We examine the genealogy of the fraud triangle and follow various chains of translations underlying its construction. One of the main translation trajectories we uncover presents individuals as vectors of moral riskiness needing to be vigilantly monitored and controlled by the organization. The organization is conceived of as a prime site in which fraud is to be addressed – not annihilated but significantly reduced as long as sufficient care is devoted to establishing layers of vigilance. As such, the fraud triangle redefines social, political and economic relations through a web of translations that both celebrate and normalize the use of organizational surveillance systems to control risk ensuing from the individual's (alleged) frail morality. In the process, other visions of fraud, focused on the broader role of society, political agendas and powerful economic institutions in engendering and preventing fraud, escape from view.

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### Introduction

Many people could, given the right set of circumstances, be capable of fraud. Experts in this area talk about the “fraud triangle,” whose three legs are: the opportunity to act dishonestly, an incentive or pressure to do so, and rationalization by the fraudster of their actions. In other words, you need an offender motivated either by financial gain, pressure to perform or a threat to their power, money or status; you need susceptible victims; and you need an absence of controls to prevent or halt the scam. (*The Observer*, December 21, 2008)

CFOs can't be expected to peer into the souls of every employee or business partner, of course, but they do

need to be more cognizant than ever of the three sides of the classic “fraud triangle”: pressure, opportunity, and the capacity to rationalize. When those elements unite, fraud often erupts. (*CFO Magazine*, April 1, 2009)

These two quotations attest to the use in both the mainstream and specialized press of a particular expression, “the fraud triangle,” in reference to the activity of explaining, detecting or preventing fraud. They also illustrate key assumptions often present in discourses surrounding the fraud triangle: an individual activity and clearly worthy of condemnation, fraud is motivated by the desire for personal gain, either in wealth or power. To prevent it, organizations need to keep a closer eye on the “soul” of their members and, given that fraud ensues from lack of control, it follows that the best way to keep it from spreading is to foster control and cultivate specific skills in its detection. In this article, we examine how the notion of organizational fraud has been conceptualized through a particular technology: the fraud triangle.

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Broadly speaking, our research connects to the power of systems of thought in shaping people's interpretive schemes along a particular angle, in influencing social debates, and in delineating the boundaries of professional jurisdictions. As illustrated in the quotations above, the fraud triangle promotes a vision where certain events and types of behavior are referred to and shaped as fraudulent and abnormal. The triangle also aids in the construction and legitimization of a field of intervention around organizational deviance problems. We aim to understand how the fraud triangle has been articulated through specific conceptualizing angles.

For several decades, both academic and professional literature has taken great interest in the notion of fraud or, more generally, the “dark side” of organizations (Vaughan, 1999). Many scholars and practitioners have sought to better understand the causes of organizational deviance and assess different methods for detecting and preventing it. Keen interest in the matter gave rise to the emergence and propagation of a field of knowledge spawned by the meeting of two disciplines that had been relatively distinct previously: accounting and criminology. We will show that the foundation of this hybrid field of knowledge, “fraud examination,” was built largely on a particular image, that of the “fraud triangle.” Tracing the genealogy of the fraud triangle, therefore, leads us to examine the creation of the field of fraud examination.

Importantly, our primary interest is not in how the fraud triangle is technically used to detect fraud, but in how its conceptualization and the underlying constitution of a field of knowledge have been structured around specific angles. Following translations made in the academic and professional literature, this study highlights that a specific vision of fraud characterizes how the triangle has been conceptualized and conveyed through formal discourse. Thus, we contribute to an emerging field of inquiry on hybrid processes of knowing, spanning across the boundaries of organizations, professions and groups of experts (Miller, Karunmäki, & O'Leary, 2008), showing not only how ideas move across disciplines, but also how a corpus that aspires to be both new and distinct from existing bodies of knowledge may take root.

In our genealogy, we will trace the different translations, developments and claims that have surrounded the spread of the triangle and possibly impacted the construction of a new area of competence and its legitimization around the notion of fraud. Our empirical task, therefore, is to follow and reconstruct the chain of translations (Latour, 1987) surrounding the fraud triangle. Every translation entails a certain modification of the original concept (Gendron & Baker, 2005). Further, the term “translation” comprises the unexpected twists and deformations that may occur in the spread of ideas. While official histories of fields of knowledge often ignore these elements of unpredictability (Kuhn, 1970), they are nevertheless commonplace. Translation also implies continuous work in extending the web of meanings surrounding a given concept. Thus, in our case, the fraud triangle does not have a single, fixed meaning; it is subject to continuous reinterpretation. Even the “core” elements of the triangle changed

significantly when they were imported into the nascent fraud examination discipline.

The translations we follow point to a distinctive way of understanding the subject studied by organizational deviance professionals – a subject that is no longer limited to the behavior of individuals in and around an organization, but that now also extends to their character. Hence in addition to the notion of translation developed by Latour (1987), we will make use of some of Foucault's writings on the normalization and constitution of the subject (Foucault, 1994, 2001, 2004), and in particular, his analysis of the intersection between psychiatry and criminology (Foucault, 1981). The spread of the fraud triangle has translated into the development of a discourse promoting the evaluation, monitoring and normalization of the character of organizational members. This is because, together with organizational control mechanisms, individuals' morality is presented as key to understand fraud risk factors. Beyond usual auditing devices focused on conformity controls, the fraud triangle thus introduces morality and immorality as a target for fraud fighting.

Before going further, we want to stress that our genealogy is not aimed primarily at evaluating how the fraud triangle and its different articulations resonate with surrounding and broader discourses (e.g., Miller & O'Leary, 1987), but rather to follow chains of translations and examine the fraud conceptualizations they sustain. Also, while we distinguish translations along three main periods (roughly defined – i.e., moving upstream; translations realized within the fraud examination community; moving downstream), in our analysis we do not seek to highlight specific variations within each of them. Our interest is to unveil what we view as the most important translations during each phase.

A key goal of our study is to trace the normative assumptions that underlie the association between fraud and morality. We will show that they form the basis of a discourse, not only about fraud detection and deterrence, but also about normality and deviance within organizations. Defining an act as a transgression or fraud is ambiguous (Berger, 2011). This is because fraud definitions relate to sociopolitical processes of labeling and are matters of disagreement and conflict in society (Becker, 1963). Yet, the triangle is presented as a technical device that aims to prevent acts deemed to be naturally unacceptable. This enterprise is clearly normative: through an ostensibly neutral technicality a specific point of view on organizational deviance is promoted. However, this is a normalizing viewpoint that conceives of fraud as a public issue caused by individuals' frail morality needing to be addressed by the organization. In other words, the conceptualizations and refinements of the fraud triangle are based on implicit separations between normality and abnormality, yet the boundaries between normal and abnormal are not discussed – as if the latter were natural and universally accepted.

We thus show how the fraud triangle traces links between accounting, auditing and risk management on the one hand, and assumptions about normality and organizational deviance on the other. In particular, our analysis points to the fraud triangle extending the field of organiza-

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