

The Corruption Triangle

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Often hidden in the great shadow of the eleven billion dollar fraud perpetrated by MCI WorldCom, lies the story of one of MCI's low level accounts receivable managers, Walter Pavlo Jr., who manipulated his employer, customers, and fellow employees in order to abscond with nearly six million dollars in accounts receivables (Pavlo Jr. and Weinberg 257). In the autobiography *Stolen Without a Gun*, Pavlo recounts each step which took him from being an enthusiastic young professional, excited about his new position with one of the country's leading cellular communication giants, to a bitter and manipulative crook. Even though he was only a low level manager and had little sway at MCI, Walter Pavlo Jr. abused and committed fraud with the small portion of accounts receivables he had power over. In such situations, the aptly quoted phrase which comes to mind is "power tends to corrupt and absolute power corrupts absolutely." In Pavlo's example, even the minute power he had was given to corruption, but did the power entrusted to Pavlo drive a once pure family man to become hate filled thief? Pavlo would disagree with this statement. He explains the source of his corruption by saying, "I started out hating MCI's customers. Then I hated MCI. Then I hated myself. After that, greed took over. I figured, even if MCI caught me, it would keep quiet because it was doing far worse" (Pavlo Jr. and Weinberg 257). The power given to Pavlo did not ignite his corruption; it was only a conduit through which Pavlo expressed the corruption which he had already set his mind upon and justified.

As in the example of Walter Pavlo Jr. and the unfortunate choices he made, the phrase "power tends to corrupt and absolute power corrupts absolutely" is false. Power alone does not have the ability to corrupt; rather, power merely provides a portion of one of three elements necessary for a person to commit a corrupt act. Introduced in the 1950s by the criminologist Donald R. Casey is the essence that would later become the theory behind causes of fraud in the business world. Casey states that:

Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-sharable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted. (Coenen 9)

This theology developed into what is now known as the fraud triangle.

According to the fraud triangle, in every instance of fraud three elements are present: motivation, opportunity, and rationalization (Coenen 10). Although this theory was developed to help identify possible fraud, a name given to corruption within a business, it also applies to corruption in general. In order for corruption to occur, an individual, or group of individuals, must have motivation, opportunity, and significant rationale to justify committing a corrupt act. Because three elements must harmoniously combine to create an environment in which one may act corruptly, only one of the three elements needs thwarting to break the triangle and prevent corruption.

To further understand the widely promulgated myth that power wields the ability to corrupt one must examine the context in which the idea was originally derived. Lord John Emerich Edward Dalberg-Acton receives credit for first penning “Power tends to corrupt and absolute power corrupts absolutely” in the year 1887. This phrase, extracted from correspondence written to Bishop Mandell Creighton, was uttered in response to Mandell’s release of “History of the Papacy during the Period of the Reformation.” In full context, Lord Acton’s infamous phrase was uttered in criticism of Mandell’s writings for not holding the Pope, King, or other men of great power to the same standard that all men are held to (Powell).

Although one may agree with Lord Acton’s criticism of Creighton’s writing, one should examine Lord Acton’s bias behind his belief that power has the ability to corrupt. While giving a lecture on the American Civil War in 1866, Lord Acton revealed his extreme, altruistic bias as he discussed slavery as “awakening the spirit of sacrifice on the one hand, and the spirit of charity on the other” (Powell). For one to believe that it is beneficial for men to have all power stripped from them, as in indentured servitude, one must have a very negative view of human nature. Acton must have believed, as his Catholic roots would support, that all humans are inherently bad, and when given power, could not help but to let that power corrupt them. Under the assumption that humans are inherently bad, one could easily come to the conclusion that men should be kept from the dangers of power and those with power should be distrusted. As Lord Acton noted, “Great men are almost always bad men” (Martin).

But does power truly have such negative effect on humans? According to a new study recorded in the May 2008 issue of *Psychological Science*, employees who feel powerful may be more competent and less likely to make errors at work than those who do not feel powerful. In this experiment, Dutch university students were randomly placed in three different groups. Once within the groups, researchers used priming exercises to make one group feel powerful, one feel powerless, and another feel neutral. Next, the

researchers tested the students to gauge any differences in ability and executive function between the groups. The researchers “expected that the empowered participants would be distracted by their own high-powered perch and would behave more impulsively, leading to more errors (....) Rather, [they] found the opposite was true. The students who were primed to feel devoid of power actually performed significantly worse than the powerful group” (Pickert). In a controlled environment, power, without any other factors, actually provided benefits that increased worker competence.

The results of the study conducted on Dutch university students embody the origins of the word power. Although in the English language the word power has developed a wide meaning, according to the Merriam-Webster Online Dictionary, the word power originated from the Anglo-French word, *poer*, meaning, “to be able.” Power, no matter how small or large, gives the ability for people to accomplish what they desire, such as making less mistakes and succeeding at work.

Many different kinds of power exist, one of which being social power. Social power is the ability for someone to influence another through a higher social status or through a position of authority or respect, such as a teacher. Another type is physical power. This power causes people to be able to influence others through use of physical strength. For example, a parent has complete control over her baby because she uses her physical strength to move and to care for her. Another type of power is intellectual power. This is the concept that the more one knows, or the more knowledge one has, the more power one has to accomplish his or her desires. Additionally, one of the most recognized powers in the modern world is financial power. All consumption of goods and services requires a surrender of money. Food and other essentials are gained through the exchange of money, as are other non-essentials, such as a college education. Those with more money can accrue more material items, have a higher standard of living, and are able to increase their social and intellectual power through use of their financial power, which is why financial power can be extremely influential. Even more influential than financial power, or any other power for that matter, is governmental power. This is because, no matter how strong of an influence the other powers may exhibit, all other powers can only influence those who are willing to be influenced. Governmental power, in contrast, provides the ability to compel influence on others. If someone chooses to break a law created by the government, the government may take away that person’s property, freedom, or even life. Out of all the kinds of power that humans can possess, no powers seem to be more accused of susceptibility to corruption than political power and financial power, undoubtedly due

to the great influence these powers exude.

Corruption is defined as “impairment of (...) moral principle” (corruption). Although, in the United States, there are universal moral principles, such as that one should not injure or take someone’s life unless it is an act of self defense, there are more specific moral principles and codes that have precedent under each kind of power. For instance, accountants, who typically have large amounts of power over the finances of businesses and individuals, are bound by the moral principles contained in the AICPA Rules of Conduct. The AICPA Rules of Conduct requires that Certified Public Accountants, when conducting an audit, maintain independence in appearance and in fact by not having social or financial interest in the corporation they are auditing and to not perform any other services for that client that would compromise their independence (Ricchiute 126-131). The AICPA Rules of Conduct also state that Certified Public Accountants must “exercise due professional care in performance of professional services” and that they “shall not knowingly misrepresent facts” (Ricchiute 132). The moral principles that those with governmental power must follow are similar in principle to some of the AICPA Rules of Conduct, but because the duties of a Certified Public Accountant and a politician differ, the moral code that they follow differs as well. For instance, although a politician should never knowingly misrepresent facts, just like a Certified Public Accountant, politicians will never be required to not perform a specific attestation service in conjunction with an audit because a politician would never conduct a financial audit and therefore that moral principle would not apply. Regardless of what specific moral code may be in place, corruption occurs when a person breaks the moral code or principle that pertains to him or her.

In order for a person to consciously make the decision to break a moral code, all elements introduced by the fraud triangle must be present. According to the fraud triangle, the first element necessary to create an environment where corruption may occur is motivation (Ricchiute 263). Such motivation can include a real financial need, such as the need to take care of an ill child who is quickly accumulating medical expenses far beyond what his family can pay, but motivation to commit a corrupt act can include perceived needs as well. For instance, a person may be earning enough money to cover all of her needs, but she may feel driven to commit a corrupt act by a strong desire for a higher standard of living than she can currently afford. A person can also be motivated by non-financial pressure to commit a corrupt act (Coenen 11). Such pressures in business could be the pressure to reach unrealistic financial goals required by upper level management, or, in the realm of politics, non-financial pressures could take on the form of

the public desiring lower crime rates. In the case of Walter Pavlo Jr., the motivation that spurred corruption was Pavlo's tire "of striving and worrying;" he wanted more money than he was earning to provide a better life for his wife and two sons (Pavlo Jr. and Weinberg 121).

Motivation is a difficult element of corruption to stop. Although most businesses and political offices require some form of background check, which typically includes a credit check, that alone is not enough to determine a person's motivation. A person may have excellent credit and be in great financial condition when they are hired or elected to office, but after the initial background check, new financial needs may arise. Also, one may have perceived needs for greater affluence or pressures from home to climb the promotional ladder at work which can never be adequately detected.

The second element which must be in place to commit a corrupt act is rationalization. Humans have the complex ability to think deductively, inductively, and process large amounts of information to make rational decisions. Unfortunately, one's ability to "employ reason" (rationalize) may or may not lead him down the right path. Pavlo's story provides an excellent example of poor reasoning. Pavlo rationalized stealing from MCI by telling himself that MCI was committing much more heinous crimes than he was. He believed that MCI was so crooked that it could not come after him for doing the much lesser crime of stealing a few accounts receivables (Pavlo Jr. and Weinberg 257).

Rationalization is even more difficult to prevent than motivation. In order to control rationalization, a person's thought process would need to be controlled, which, short of brainwashing, is an impossibility. There is "no way of knowing what lies an employee may tell himself to justify [corrupt acts] in his mind, so there is virtually no way of counteracting the lies" (Coenen 13).

The third element necessary for a person to commit a corrupt act is opportunity. According to Tracy Coenen, a Certified Fraud Examiner and an authority on fraud detection and investigation (About Tracy Coenen), in order for one to commit fraud, not only does he need an opportunity to commit the fraud, he also needs an opportunity to conceal it (Coenen 12). Often, power helps provide the opportunity needed to commit a corrupt act, but it doesn't always provide the means to conceal it. In Pavlo's case, the power he had to collect accounts receivable for MCI gave him access to the accounts receivable, but it did not provide the opportunity to steal. Pavlo's opportunity to pilfer accounts receivables was granted to him by MCI's poor control environment. Pavlo often engaged the accounts receivable department in a practice known as accounts receivable lapping, posting payments received from one customer to another's account to make

overdue accounts appear current, in order to meet corporate's bad debt expense goals (Pavlo Jr. and Weinberg 101). MCI's management encouraged and rewarded Pavlo for accounts receivable lapping and many other inventive and extremely illegal acts that helped MCI reach its projected financial numbers. MCI's flagrant desire to illegally hide its bad debt gave Pavlo the opportunity to conceal the accounts receivable he was thieving within the constant myriad of lies that constituted MCI's financial department.

Opportunity is the only element of the fraud triangle which can be adequately controlled to prevent corruption, but this is not to say that people should be stripped of their power. As American actor and comedian Harry Shearer once inquired, "If absolute power corrupts absolutely, does absolute powerlessness make you pure" (Harry Shearer Quotes)? Certainly this is not the case. Some of the most powerless individuals in the world, those without any financial, intellectual, or social power, often find themselves driven to the corrupt act of stealing. Also, as depicted in the experiment conducted on Dutch university students published in *Psychological Science*, power is a potent tool that can increase a person's ability and competence in the workplace (Pickert). Rather, the portion of opportunity which must be controlled is the opportunity to conceal corrupt acts.

According to *Internal Control: Integrated Framework*, commonly referred to as the *COSO Report*, a four volume document released by the Committee of Sponsoring Organizations after three years of study, proper internal controls and activities can help prevent corruption from occurring by taking away employees' opportunities to conceal fraudulent actions (Ricchiute 299-300). Although these internal controls were developed specifically to prevent corruption in business, the same tactics could be applied to help prevent corruption in politics. One internal control suggested by the *COSO Report* is the segregation of responsibilities. Within a business, this internal control would take on the form of separating important steps within a transaction to keep a single employee from being able to conceal any corruption (Ricchiute 304-305). For instance, when issuing payroll checks, one person would add new employees, another would process the checks, a manager would review and sign the checks, and a fourth person would deliver the checks. This method is effective because, in order to issue false checks to be cashed by any of the individuals involved, all four of the employees must collude to effectively conceal the corrupt act. When applied to political power, the segregation of duties resembles the governmental system of checks and balances. No single politician has the ability to increase his own salary without the approval of many others, nor can he conceal any unauthorized increase in pay from those who print and sign his paycheck.

Another important internal control factor introduced in the COSO *Report* that does not appear to be followed closely within the limits of governmental power is independent monitoring. In order to be effective, independent monitoring should “take advantage of the element of surprise, be performed by personnel independent of the functions tested, and result in corrective action” (Ricchiute 308). Within a business, independent monitoring is often conducted by internal auditors, employees who are completely separate from any of the financial functions within the business. Internal auditors are responsible for ensuring that all controls set in place to prevent errors or corruption from occurring are functioning properly, they devise improvements for controls, and search for any errors or fraud that may be occurring. When, at any moment, an internal auditor may arrive to evaluate the accuracy of one’s work, it becomes difficult to have confidence that any corruption could be concealed, which is what makes the control factor of independent monitoring so effective at preventing corruption.

Governmental agencies should apply independent monitoring as an integral portion of their function, as businesses do. Although government officials may face investigation and indictment over corrupt acts committed, the threat of punishment does not prevent a politician from committing a corrupt act because he or she still has the opportunity to conceal the act and possibly not face punishment. To prevent corrupt acts from occurring in government, the opportunity to conceal corruption must be taken from officials through independent monitoring. The independent monitoring would not need to be constant surveillance of politicians, but a possible example of monitoring could include reviewing a sample of campaign contributions and tracing those contributions to laws that have been passed or contracts that have been granted in conjunction with whom the contributions were received from.

Does power tend to corrupt and absolute power corrupt absolutely? Absolutely not: although power may give a person the ability to commit a corrupt act, a person will not commit a corrupt act simply because he is able to. Corruption can only occur when one finds himself in the situation where he not only has the power to commit a corrupt act, but also has the opportunity to conceal it, has a need, perceived or real, that could be met by corruption, and can justify taking corrupt action. It is dangerous to believe that stripping men of power will bring an end to corruption, because power on its own is not evil or corrupting as Lord Acton’s infamous phrase suggests, but rather, power is a conduit through which people are able to actualize whatever needs accomplishing. According to the origins of the word power, power simply means “to be able” (power) and despoiling people of their ability may not only thwart corruption, but it could completely impede any action or productivity all together.

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