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## Understanding Principled Leadership Through the Lens of Fraud Diamond Theory

### Abstract

The paper emanates from the inaugural lecture that I presented on the 22<sup>nd</sup> of November 2022 at the University of South Africa. It is well known that “The Zondo Commission” revealed numerous crises with principled leadership poisoning organisations in South Africa. The world is becoming more conscious of ethics and ethical leadership because of the numerous scandals that have occurred in a variety of sectors, such as state-owned corporations and government institutions owing to unethical conduct by those organisations’ leaders. It would be wrong to think that because corrupt behaviour had been exposed, the golden era of frauds had ended and that organisations had reached a turning point due to democracy and open management. If fraudulent actions continue to deplete organisations of resources and offer difficulties for managers and leaders, I contend, principled leadership is becoming toxic in organisations. These leaders need to be visionary. They must be able to communicate with members of their team. When leaders and their teams communicate, trust and confidence are increased. They should inform team members of their decisions rather than forcing decisions upon them. Leaders should consider all relevant factors before making judgments. They ought to enforce their influence by persuasion rather than by pressure. They must be creative in coming up with new solutions to challenges, taking chances to support organisations in minimising toxic inclinations.

Keyword: corruption, principled leader, toxic, Fraud Diamond Theory, empowerment, honesty

### Introduction

This paper uses the dimension Fraud Diamond Theory covered in literature study, by asking, “Why is principled leadership turning toxic in organisations?” The review’s theoretical foundation for understanding “Why is principled leadership turning toxic in organisations” is the fraud diamond hypothesis. Instead of traumatising and mocking employees, toxic leaders must recognise their shortcomings and eliminate them if they want to prevent their organisations from becoming toxic (Labhane, 2020). It is assumed that if corrupt behaviour can be exposed in organisations, then frauds can be minimised. Rustiarini, Nurkholis and Andayani (2019) found that corruption practices seem to have been institutionalized in the organizational systems and have become an integral part of organizations’ activities.

It is argued in this paper that employees that are dealing with extreme unfavourable working conditions and job uncertainty need principled leaders for them to cope with their vulnerability in the workplace. Therefore, a good code of conduct for leaders and employees in organisations do not inevitably translate into principled leadership. It is

assumed that principled leaders can recognise and deal with the consequences of dysfunctional behaviour and leadership in organisation.

## **Methodology**

### *Method*

The paper is qualitative in nature and literature on principled leadership was reviewed and the Fraud Diamond Theory was used by relying on interpretivist paradigm.

### *Purpose of the paper*

The purpose is to understand the concept of 'Principled Leadership' through the lens of Fraud Diamond Theory.

### *Research question*

The overarching question this paper is trying to understand is: "Why is principled leadership turning toxic in organisations?"

## **Fraud Diamond Theory**

It explains the occurrence of most frauds in organisations, and this theory acts as an "early fraud warning instrument". Individuals who are motivated to commit fraud in organisation not only need opportunities but also must have the capability to exploit existing fraud opportunities. The capability is an individual factor that must be possessed by each fraud perpetrator to commit fraud. It is assumed that corruption practices seem to have been institutionalized in the organization system and have become an integral part of organization activities (Rustiarini, Nurkholis & Andayani, 2019).

## **Principled leadership**

The exhibition of normatively appropriate behaviour through one's actions and interpersonal interactions, as well as the encouragement of such behaviour to followers through two-way communication, reinforcement, and decision-making, are all components of principled leadership (Argyropoulou & Spyridakis, 2022). A code of conduct, a good institution or organisation, or a plethora of good intentions do not automatically translate into principled leadership. It is a decision made by an individual, or rather a sequence of decisions, that result from the intricate interaction of internal values and external societal pressures (McQuade, 2022). Honesty, generosity, fairness, and respect must all be regulated behaviours under principled leadership. Leaders who uphold ethics must act in a way that benefits others and refrain from bad behaviour. These leaders need to uphold morality in all their behaviours, attitudes, and values. They have a responsibility to lead by moral example. They must go beyond simply being trustworthy, disciplined, and fair leaders. They must promote moral behaviour among their supporters by outlining moral values and goals, providing moral guidance, and holding employees accountable for their good and bad deeds as supporters. They should resist temptations and serve as moral role models for their followers. Collective motivation, honesty, empowerment, and selflessness are traits of

principled leadership that are often seen as essential to effective leadership in organisations (Ejaz et al., 2022).

People of character who work to change the unacceptable habits can help to tackle the problem of toxic workplaces (Grace, 2022). To prevent organisational politics and lower the likelihood that someone would become a victim of workplace bullying, the leader's ethical leadership is crucial in fostering a supportive and ethical workplace culture (Tiamboonprasert & Charoensukmongkol, 2020). Employees that are dealing with extreme unfavourable working conditions and job uncertainty need ethical leadership behaviour. By acting fairly and openly in their decision-making, principled leaders are expected to encourage proper workplace behaviour. Employees may regard organisational regulations and processes as just and legitimate when leaders act ethically, to help relieve concerns about the instability of their jobs and working circumstances. The role of principled leaders in organisations or institutions is to act as reliable information sources to increase the accountability and predictability of organisational actions. With significant task and emotional resources, principled leadership behaviour can also lower employees' negative feelings and attitudes, if they care about employees' personal struggles and give them fair opportunity. This may also help them make meaningful contributions at work (Lee, Hur & Shin, 2022).

### **Organizations are becoming poisonous because of corrupt leaders**

Although principled leadership is generally related to desirable workplace outcomes, it was found that ethical leaders who oversee employees high on narcissism may spur unintended negative emotions and attitudes. Indeed, principled leaders promote a work context in which normative, communal standards of behavior are consistently modelled, communicated, and championed over self-centred, risk-driven behavior, which narcissists prefer. Thus, narcissists, who are emotionally volatile and exhibit behaviors that prioritize the self over ethics and others, may react negatively toward principled leaders (Fox, Smith & Webster, 2023). Leadership that is destructive does not happen by accident. There is a 'toxic triangle' consisting of the leader, the follower, and the environment. This triangle must exist for corrupt and toxic leadership to flourish. Dominance, force, intimidation, coercion, and manipulation are examples of destructive leadership. On the other side, influence, persuasion, and commitment are traits of constructive and ethical leadership. Selfishness by toxic leaders in organisations serves as an example of destructive leadership (Cushman, 2022).

According to Baloyi (2020), leadership is one of the most important functions in life and should provide organisations or institutions with a competitive edge. It is believed that leadership is the process by which a leader motivates followers to work together to accomplish the organisation's objectives. Because of the toxicity at their jobs, people who work in toxic settings frequently have little to no choice, but to lose energy and become demoralised. An example is the tale of bosses who make fun of their workers in public, subject them to emotional and physical suffering, and encourage rivalry among workers while they are still considered co-workers. A poll of 14,000 employees and 800 managers concluded that the repercussions of workplace disrespect on people have grave consequences. Employees who worked in toxic settings reported exerting less effort, spending less time at work, and producing lower-quality work. Employee personality changes because of stressful workplace relationships, are the most alarming effect of workplace rudeness. People may alter

their beliefs during traumatic circumstances because of uncertainty, anxiety, and difficult choices (Grace, 2022).

### **Behaviours displayed by toxic leaders in organisations**

Toxic leaders exhibit bad leadership traits such as dishonesty, unfair treatment of followers, lack of support for followers, distorting or withholding information, disloyalty, authoritarian behaviour, personal attacks on followers, being unapproachable, and acting heartlessly and insensitively. Individuals, when faced with potentially dangerous conditions, they tend to withdraw their efforts and involvement at work to reclaim their own independence. Employees could unwittingly lower their participation to reclaim their own liberty because of witnessing their superiors' abusive behaviour (Xia, Zhang & Li, 2019).

### **The toxic effects of corrupt leadership in organisations**

The Fraud Diamond Theory identifies the following four elements/factors that cause moral leaders to become toxic leaders in organisations (Wolfe & Hermanson, 2004; Hart, Coate & Fischer, 2022), namely:

- *The Incentive*: They can be motivated by a need or a desire to deceive others to become toxic. Examples of the incentive or pressure component of the fraud triangle include money, vices, performance, financial issues, and addiction. The most common examples are closely based around money and other financial issues.
- *The Opportunity*: They might identify a systemic flaw in the organisation and take advantage of it. For example, they see the potential for fraud. Opportunity structure is important because if a fraud is more difficult to commit, the number of offenses will be reduced. When companies have weak internal controls, including ease of management override, frauds are more likely to occur and less likely to be detected.
- *The Rationalisation*: It is the most difficult element to both detect and control since it is internal and unique to the employee. An awareness of employees' attitudes and overall job satisfaction can help employers assess the risk of fraud. They may persuade themselves that the risks involved in their dishonest behaviour are justified. This justification gives the individual moral permission to commit the fraud even though it may go against their ethical beliefs.
- *The Capability*: They possess the qualities and skills required to be the most suitable candidate to pull it off. They might see the chance for fraud and be able to make it happen in their organizations. Although morally wrong, justification of frauds can convince the employee that they are doing nothing wrong despite knowingly engaging in fraudulent behavior. Suddenly, employees find themselves in denial; a behavior that can lead to a chain reaction where these employees find themselves repeating the fraudulent act. Fraudulent people deceive themselves into believing they are the victim in order to rationalize committing more fraudulent acts.

One of the most difficult problems affecting organisations and institutions in most of the world's nations, is fraud. Fraud indicates that corruption may occur because of insufficient professionalisation of the bureaucracy in institutions, a lack of oversight and control mechanisms, a lack of openness and accountability, and other factors

(Rustiarini, Nurkholis & Andayani, 2019). Because personnel working in these institutions are more likely to be exposed to fraud, there are risk factors that could motivate them to commit fraud. Therefore, institutions are more susceptible to the risk of fraud. White-collar crimes in organisations may result from ethical leaders turning toxic, damaging public trust in the organisations, and posing systemic dangers to the efficient operation of the organisations. The pressure that leads to fraud might come from within the individual, the organisation, the workplace, or from the outside.

According to Hart, Coate and Fischer (2022), the motivation for committing fraud is inducement or pressure. Some situations encourage or make it necessary for people to engage in fraud rather than control it. Incentives consider an employee's mentality to motivate behaviours that lead them to avoid managing fraud.

Personal issues like the cost of marriage, divorce, medical expenses, and other issues like unmanaged debt and greed can put a strain on finances. Some organisational leaders may be fixated on power and terrified of changing their lifestyle and losing their social position. In the context of an organisation, pressure is present when a leader instructs subordinates to engage in unethical behaviour (obedience pressure). For instance, the Integrity Survey results from 2008-2009 revealed that 59% of managers and employees felt pressured to do whatever it took to meet their goals; 52% of managers and employees think they will be rewarded if they achieve their goals; and 49% of managers and employees worry about losing their jobs if they don't (Rustiarini, Nurkholis & Andayani, 2019).

Occupational pressure is a type of pressure that is frequently present in the workplace and challenging to avoid. The internal organisation or outside parties who are still connected to the organisation are the sources of this pressure. While external pressure comes from high ranked members who hold power, internal pressure comes from leaders acting as superiors. When internal organisations put pressure on individuals, leaders of the organisation may manufacture fraud and drive it from the top down using potent tools like approval to authority. Employees will be forced to choose between refusing the leader's orders and doing so can result in fraudulent behaviour. If the employee does not follow such unlawful directive, they risk being terminated or changed (Rustiarini, Nurkholis & Andayani, 2019).

The opportunity in an organisation is the absence of structure and governance that would regulate how operations are managed and how assets are used. Where an effective structure exists, there is a chance, fraud won't happen, because the person will be under a lot of pressure to do it. Lack of organisational structure, poor monitoring, and the character of the organisation are the three components that make up the opportunity factor (Deliana & Oktalia, 2022). These flaws are the main factors that lead to fraud in internal control.

Managerial rationalisation or attitude may be used to justify deception with the goal of outsmarting rivals or reaping financial rewards. It is a defence that someone who cannot handle fraud can use it to justify accepting to conduct fraud. Deliana and Oktalia (2022) discovered that individuals who engage in fraud within organisations will defend their unethical actions and claim that committing fraud is a fair course of action.

The ability to conduct fraud is a matter of the knowledge, self-assurance, and position the manager as an individual possesses. The ability is connected to intelligence, and the authoritative position allows the holder to take advantage of internal weaknesses under pressure, by rationalising (Deliana & Oktalia, 2022).

According to the concept of capability, six factors enable people to commit fraud (Rustiarini, Nurkholis & Andayani, 2019).

These include:

- Key position/function;
- Intellectual capacity;
- Confidence/ego;
- Effective misrepresentation;
- Immunity to stress and guilt; and
- Coercive ability.

Allegations of state capture, corruption, fraud, and irregularities relating to tenders in organisations like the South African Airports Company, South African Airways Technical, and South African Express; Bosasa, Denel, Estina, Prasa, SABC, SARS, State Security Agency, and Transnet, were among the examples of unethical behaviour covered in the evidence presented before the Zondo Commission. The Zondo Commission's evidence showed how unethical leadership can poison an organisation, and higher education institutions are not exempt.

## Findings

Toxic leadership syndrome leads to leaders' displaying lack of care for subordinates' welfare and negatively affecting organisational acceptable culture. The struggle in evaluating the honesty of individual leaders is the subjectivity inherent in determining which criteria to use and their relative importance. Principled leaders have characteristics of a moral person in terms of individual virtues such as honesty and integrity, and the moral manager by setting an example by communicating ethical standards to their followers. Integrity is also a key feature in personality characteristics of principled leadership in organisations.

## Conclusion

It is argued that organisational leaders should work to improve the principled climate among their workforce by pursuing principled leadership. Theoretically, harsher fines can limit fraud and corrupt behaviour in organisations; however, dishonest leaders and managers who hold influential positions can typically demand bigger bribes. Institutions should set up strategies for reporting misconduct that is free from institutional control, by ensuring confidentiality, and offering protection to whistle-blowers. Principled leaders can help reduce toxic leadership in organisations. Leaders should have morals and integrity because they hold positions of authority.

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