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PROCUREMENT FRAUD AND ITS EFFECTS ON ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Procurement fraud has become a major challenge confronting both public and private organizations, resulting in significant financial losses, operational inefficiencies, weakened corporate governance, and diminished organizational performance. This study examines procurement fraud and its effects on organizational performance with the objective of identifying the systemic drivers, common manifestations, and organizational consequences of fraudulent procurement practices. Specifically, the study explores the concept of procurement fraud, reviews its typologies within the supply chain, examines the Fraud Triangle Theory as the underpinning theoretical framework, and analyses the impact of procurement fraud on financial performance, operational efficiency, supply chain effectiveness, and organizational reputation. A qualitative, non-empirical desk research design based on unobtrusive secondary data was adopted. Data were obtained from forensic audit reports, peer-reviewed journal articles, government publications, anti-corruption agency reports, international organizations' publications, and documented corporate case studies published within the last five to ten years. The collected documentary evidence was analysed using conceptual and thematic content analysis to identify recurring patterns and themes relating to procurement fraud and organizational performance. The findings reveal that procurement fraud is largely driven by weak internal controls, inadequate oversight, poor ethical culture, supplier collusion, conflicts of interest, and ineffective procurement governance. The study further establishes that procurement fraud contributes to financial leakages, inflated procurement costs, supply chain disruptions, project delays, reputational damage, reduced stakeholder confidence, and declining organizational productivity. The study concludes that strengthening internal controls, promoting transparency, adopting electronic procurement systems, conducting regular audits, enforcing ethical standards, protecting whistleblowers, and implementing strict sanctions against offenders are essential for preventing procurement fraud and improving organizational performance. These measures will enhance accountability, safeguard organizational resources, and promote sustainable organizational growth.

Keywords: Procurement Fraud; Organizational Performance; Supply Chain Management; Internal Controls; Fraud Triangle Theory; Corporate Governance.

1 Introduction

Procurement has evolved from a routine administrative function into a strategic management activity critical to organisational competitiveness, financial sustainability, and long-term value creation (Lysons & Farrington, 2020; Van Weele, 2022). Due to global supply chain complexities and expanding outsourcing dependencies, organisations now allocate substantial portions of their annual budgets to procurement-related activities. According to the Organisation for Economic Co-operation and Development, public procurement alone accounts for approximately 12% of the gross domestic product (GDP) of OECD nations and nearly 30% of government expenditure (OECD, 2023), while comprising 50% to 70% of operating costs in the manufacturing and service sectors (Van Weele, 2022). However, the massive financial resources flowing through these systems render procurement uniquely vulnerable to systemic fraud and corruption.

Procurement fraud is the deliberate manipulation of purchasing processes for personal or organisational gain through deceptive, illegal practices that undermine market competition and value for money (Association of Certified Fraud Examiners [ACFE], 2024). Globally, it constitutes one of the most pervasive forms of corporate misconduct; the ACFE (2024) estimates that organisations lose roughly 5% of their annual revenues to occupational fraud, with procurement schemes being among the most costly and difficult to detect. The United Nations Office on Drugs and Crime notes that large transactional volumes and high administrative discretion make procurement exceptionally susceptible to corruption (UNODC, 2020). Across economies, this fraud manifests as bid-rigging, kickbacks, phantom vendors, contract splitting, and inflated invoicing (OECD, 2023; Transparency International, 2021). Furthermore, while modern digital shifts offer better audit trails, cyber-enabled procurement fraud has introduced new risks through the manipulation of electronic databases and digital payment systems (World Bank, 2020).

This vulnerability is particularly acute in developing nations, where institutional weaknesses and regulatory gaps frequently compromise public spending on vital infrastructure and healthcare (Transparency International, 2021; World Bank, 2020). Nigeria provides a prominent example: despite the Public Procurement Act of 2007 and oversight by the Bureau of Public Procurement, irregularities such as contract inflation, ghost contractors, and project abandonment remain widespread (Bureau of Public Procurement, 2023). Ongoing investigations by anti-graft bodies like the EFCC and ICPC highlight pervasive procurement corruption spanning health, defence, and energy sectors (EFCC, 2024). Crucially, this risk is not isolated to public offices; private organisations equally experience devastating capital drains from supplier collusion, fictitious vendors, and duplicate invoicing, which artificially inflate operating costs and compromise market competitiveness (ACFE, 2024).

The consequences of these fraudulent schemes directly degrade comprehensive metrics of organisational performance, which encompass financial outcomes, operational efficiency, and reputational equity (Kaplan & Norton, 2008). Procurement fraud disrupts supply chains, drives up transactional expenses, causes severe project delays, and results in the delivery of substandard goods or services (ACFE, 2024). By diverting scarce resources away from productive capital investments, it ultimately erodes investor confidence and public trust in institutional governance. Consequently, there is an urgent imperative for targeted empirical research to map these causal pathways, helping policymakers, auditors, and anti-corruption agencies design robust internal controls, forensic monitoring tools, and ethical frameworks to safeguard institutional efficiency.

1.1 Statement of the Problem

Procurement fraud has become one of the most persistent threats to organizational effectiveness in both the public and private sectors. Despite the strategic importance of procurement in ensuring value for money, operational efficiency, and organizational sustainability, fraudulent practices such as bid-rigging, contract inflation, kickbacks, phantom vendors, false invoicing, and the supply of substandard goods continue to undermine procurement processes. The Association of Certified Fraud Examiners (ACFE, 2024) estimates that organizations worldwide lose approximately 5% of their annual revenue to occupational fraud, with procurement-related corruption accounting for a substantial proportion of these losses. In developing countries, including Nigeria, procurement fraud has been linked to financial leakages, abandoned projects, poor service delivery, and declining public confidence in organizational governance (Transparency International, 2021; Bureau of Public Procurement, 2023).

Although governments and organizations have introduced procurement laws, internal control mechanisms, electronic procurement systems, and anti-corruption agencies to improve transparency and accountability, procurement fraud remains widespread. Weak internal controls, inadequate segregation of duties, poor supplier oversight, lack of accountability, and collusion between procurement officials and suppliers continue to create opportunities for fraudulent practices. These weaknesses result in increased operational costs, project delays, poor-quality goods and services, reduced profitability, reputational damage, and diminished organizational performance (Van Weele, 2022). Previous studies have examined procurement fraud from the perspectives of corruption, governance, and financial accountability. However, there remains insufficient empirical evidence on the extent to which procurement fraud affects overall organizational performance, particularly in terms of financial performance, operational efficiency, productivity, service quality, and organizational reputation. This gap underscores the need for further investigation into the relationship between procurement fraud and organizational performance.

Therefore, this study seeks to examine procurement fraud and evaluate its effects on organizational performance, with the aim of providing evidence-based recommendations for strengthening procurement practices and enhancing organizational effectiveness.

1.2 Objectives

i. To investigate the systemic drivers and institutional vulnerabilities that cause procurement fraud.
ii. To examine the various typologies and operational manifestations of procurement fraud within the supply chain.
iii. To assess the qualitative and quantitative effects of procurement fraud on financial, operational, and reputational dimensions of organisational performance.
iv. To formulate actionable, evidence-based risk management strategies and policy recommendations to mitigate procurement fraud.

1.3 Significance of the Study

This study will be beneficial to organizational managers, procurement officers, policymakers, anti-corruption agencies, corporate auditors, researchers, and students. The findings will provide valuable insights into the nature of procurement fraud and its effects on organizational performance, thereby contributing to improved procurement governance and organizational effectiveness.

The findings will help organizational managers strengthen procurement controls, improve internal control systems, enhance transparency, and reinforce accountability mechanisms to minimize fraudulent procurement practices. Procurement officers will gain increased awareness of ethical procurement practices, compliance with procurement regulations, and effective fraud prevention and detection mechanisms, thereby promoting integrity and efficiency in procurement processes. The study will also provide policymakers with empirical evidence to support the formulation and implementation of procurement policies, regulatory reforms, and institutional frameworks aimed at reducing procurement fraud. In addition, anti-corruption agencies and corporate auditors will benefit from the findings by gaining insights into emerging procurement fraud patterns, risk indicators, and strategic mitigation measures that can enhance fraud detection, investigation, prevention, and compliance monitoring.

Furthermore, the study will contribute to the existing body of knowledge on procurement fraud and organizational performance. Researchers and students will benefit from the study as a valuable academic reference for future research, while serving as a foundation for further empirical investigations into procurement management, fraud risk management, corporate governance, and organizational performance.

4 Conceptual Review

4.1 The Concept of Procurement

Procurement is a fundamental organizational function concerned with the acquisition of goods, services, and works required for the effective operation and achievement of organizational objectives. It encompasses a systematic process of identifying organizational needs, sourcing suppliers, negotiating contracts, purchasing, receiving goods or services, and managing supplier relationships while ensuring value for money and compliance with established regulations. Modern procurement has evolved beyond routine purchasing into a strategic management function that contributes significantly to organizational competitiveness, operational efficiency, cost reduction, innovation, and sustainable value creation (Van Weele, 2022).

According to Monczka et al. (2015), procurement is an integrated supply chain activity involving supplier identification and selection, negotiation, purchasing, contract administration, supplier performance evaluation, and payment processing. Similarly, Lysons and Farrington (2020) define procurement as the strategic process of obtaining goods and services from external sources in a manner that delivers the optimal combination of quality, cost, delivery, and sustainability. Procurement therefore extends beyond the mere acquisition of products to include supplier relationship management, strategic sourcing, risk management, and contract lifecycle management.

The primary objective of procurement is to ensure that organizations obtain the right quality of goods and services, in the right quantity, from the right supplier, at the right time, at the right price, and at the right place—a principle commonly referred to as the "Six Rights" of procurement (Thai, 2017). Effective procurement enables organizations to minimize operational costs, improve service delivery, enhance productivity, ensure regulatory compliance, and achieve strategic objectives. Conversely, ineffective procurement practices expose organizations to financial losses, supply disruptions, poor-quality products, contractual disputes, and increased vulnerability to fraud and corruption (Van Weele, 2022).

Procurement may be categorized into public procurement and private procurement. Public procurement involves the acquisition of goods, works, and services by government institutions using public funds, while private procurement refers to procurement activities undertaken by private organizations to support business operations and profitability (Thai, 2017). Although both sectors follow similar procurement principles, public procurement is generally subject to stricter legal and regulatory frameworks because it involves public resources and accountability to citizens.

In today's global business environment, procurement has become increasingly digitized through electronic procurement (e-procurement) systems that improve transparency, reduce administrative costs, strengthen supplier competition, and enhance procurement efficiency. However, technological advancements have also created new opportunities for procurement fraud through electronic invoice manipulation, vendor impersonation, cyber-enabled payment fraud, and unauthorized alterations of procurement records (OECD, 2023).

4.2 The Concept of Fraud

Fraud refers to any intentional act of deception, concealment, or misrepresentation carried out to obtain unlawful financial, material, or personal benefits at the expense of another individual or organization. Unlike errors or negligence, fraud involves deliberate actions designed to deceive and violate legal or ethical standards. Fraud occurs across both public and private organizations and represents one of the most significant threats to organizational sustainability, financial integrity, and stakeholder confidence (ACFE, 2024).

One of the earliest and most influential explanations of fraud was provided by Cressey (1953) through the Fraud Triangle Theory. Cressey argued that fraud occurs when three conditions coexist: perceived pressure, perceived opportunity, and rationalization. Pressure refers to financial or personal challenges motivating fraudulent behaviour; opportunity arises from weak internal controls and ineffective supervision; while rationalization enables perpetrators to justify their dishonest actions as acceptable under certain circumstances. The Fraud Triangle remains one of the most widely applied theoretical frameworks for understanding occupational fraud.

The Association of Certified Fraud Examiners (2024) defines occupational fraud as the intentional misuse or abuse of organizational resources by employees for personal enrichment. According to the ACFE, occupational fraud is broadly classified into three categories: asset misappropriation, corruption, and financial statement fraud. Asset misappropriation involves the theft or misuse of organizational assets; corruption includes bribery, conflicts of interest, kickbacks, and economic extortion; while financial statement fraud involves the intentional manipulation of financial reports to deceive stakeholders.

Fraud can occur in virtually every organizational function, including accounting, procurement, payroll, inventory management, taxation, human resource management, project management, and financial reporting. Common organizational fraud schemes include false invoicing, payroll fraud, procurement fraud, inventory theft, cheque tampering, expense reimbursement fraud, cyber fraud, and vendor collusion (Singleton & Singleton, 2010). These fraudulent activities result in substantial financial losses, reduced organizational efficiency, damaged reputation, legal sanctions, and declining stakeholder confidence.

Globally, fraud remains a persistent organizational challenge. The ACFE (2024) estimates that organizations lose approximately 5% of their annual revenue to occupational fraud, with procurement-related corruption ranking among the most expensive and difficult fraud schemes to detect. The increasing complexity of supply chains, digital payment systems, and international business transactions has further expanded opportunities for sophisticated fraudulent practices.

4.3 The Concept of Procurement Fraud

Procurement fraud refers to any deliberate act of deception, manipulation, or unethical conduct committed during procurement processes for the purpose of obtaining unlawful financial gain or unfair competitive advantage. It involves the abuse of procurement procedures by employees, suppliers, contractors, consultants, or other external parties through dishonest practices that violate procurement regulations, organizational policies, and ethical standards (Thai, 2017). According to Thai (2009), procurement fraud involves the intentional manipulation of procurement processes in ways that undermine fairness, transparency, accountability, competition, and value for money. Similarly, the United Nations Office on Drugs and Crime (2013) describes procurement fraud as corrupt or fraudulent conduct that distorts procurement decisions through bribery, bid manipulation, false documentation, conflicts of interest, or collusion between procurement officials and suppliers.

Procurement fraud can occur at every stage of the procurement cycle, including needs assessment, procurement planning, supplier prequalification, tender preparation, bid evaluation, contract award, contract implementation, payment processing, and contract monitoring. Fraudsters exploit weaknesses in procurement systems, inadequate internal controls, poor segregation of duties, lack of transparency, and ineffective oversight mechanisms to perpetrate fraudulent activities (OECD, 2023).

Procurement fraud manifests in numerous forms. Common examples include:

- **Bid-rigging**, where competing suppliers collude to predetermine the winning bidder and artificially inflate contract prices.
- **Kickbacks**, involving illegal payments or gifts offered to procurement officials in exchange for contract awards.
- **Phantom vendors**, where fictitious suppliers are created to receive fraudulent payments.
- **Inflated invoicing**, in which suppliers deliberately overcharge organizations beyond agreed contractual amounts.
- **Contract splitting**, whereby procurement officers divide contracts into smaller values to circumvent approval thresholds.
- **Conflict of interest**, where procurement officials influence procurement decisions to benefit themselves, relatives, or associated businesses.
- **Delivery of substandard goods**, where suppliers intentionally provide products or services below contractual specifications while receiving full payment.
- **Duplicate payments**, involving multiple payments for the same goods or services (ACFE, 2024; Lysons & Farrington, 2020).

Procurement fraud may involve individual employees acting alone or organized collusion between procurement officers, suppliers, contractors, consultants, and senior management. Because procurement transactions often involve substantial financial resources, multiple stakeholders, and discretionary decision-making, procurement systems remain particularly vulnerable to corruption and fraud if adequate governance mechanisms are lacking (World Bank, 2020). The consequences of procurement fraud extend beyond direct financial losses. Procurement fraud increases operating costs, reduces profitability, weakens organizational performance, delays project completion, undermines public confidence, damages institutional reputation, discourages fair competition, and compromises service delivery. In public sector organizations, procurement fraud also diverts scarce public resources away from developmental projects and erodes citizens' trust in government institutions (Transparency International, 2021). Consequently, organizations increasingly invest in internal controls, electronic procurement systems, forensic auditing, supplier due diligence, whistle-blowing mechanisms, and anti-fraud training to strengthen procurement integrity and organizational performance.

5 Theoretical Framework

The Fraud Triangle Theory, developed by Donald R. Cressey in 1953, is one of the most widely accepted theoretical frameworks for explaining why individuals engage in fraudulent behaviour within organizations. The theory originated from Cressey's sociological study of embezzlers and was first presented in his seminal work, *Other People's Money: A Study in the Social Psychology of Embezzlement*. Based on interviews with convicted fraud offenders, Cressey (1953) concluded that trusted individuals are likely to commit fraud when three conditions simultaneously exist: pressure, opportunity, and rationalisation. These three elements form what is commonly known as the Fraud Triangle and continue to provide a useful framework for understanding procurement fraud in both public and private organizations.

The Fraud Triangle Theory is particularly relevant to the study of procurement fraud and its effects on organizational performance because procurement activities often involve significant financial resources, discretionary decision-making, interactions with external suppliers, and complex approval procedures. These characteristics create conditions under which employees, procurement officers, contractors, and suppliers may exploit procurement systems for personal gain if adequate controls are absent (Albrecht et al., 2019). The theory therefore provides a valuable lens for explaining the behavioural and organizational factors that contribute to procurement fraud.

Pressure

Pressure refers to the motivation or incentive that compels an individual to commit fraud. According to Cressey (1953), pressure usually arises from financial problems, personal debts, unrealistic performance expectations, lifestyle demands, gambling addiction, family responsibilities, or the desire to maintain social status. Employees experiencing significant personal or professional pressure may perceive fraud as the only available solution to their problems, particularly when legitimate alternatives appear unavailable.

Within procurement systems, pressure may stem from several organizational and individual factors. Procurement officers may face financial hardship, pressure to meet unrealistic procurement targets, expectations to favour politically connected suppliers, or demands from senior management to manipulate procurement outcomes. Likewise, suppliers competing for lucrative contracts may experience intense commercial pressure that encourages unethical practices such as offering bribes, kickbacks, or falsifying procurement documents to secure contract awards (Singleton & Singleton, 2010).

In many developing countries, including Nigeria, economic instability, inflation, unemployment, low wages, and weak employee welfare systems can intensify financial pressures on procurement personnel. Such pressures increase the likelihood of accepting kickbacks, inflating contract values, approving fictitious invoices, or colluding with contractors. Consequently, financial pressure becomes a significant antecedent of procurement fraud, resulting in increased organizational costs, resource wastage, and declining organizational performance.

Opportunity

Opportunity refers to the circumstances that enable fraud to occur without immediate detection. Cressey (1953) argued that regardless of the level of pressure experienced by an individual, fraud cannot occur unless the person perceives an opportunity to commit and conceal the fraudulent act. Opportunity generally arises from weak internal controls, poor supervision, ineffective auditing, inadequate segregation of duties, management override of controls, and deficiencies in governance systems.

Opportunity represents perhaps the most significant component of procurement fraud because procurement processes involve multiple stages—including procurement planning, supplier selection, bid evaluation, contract award, contract execution, and payment authorization—each of which presents potential vulnerabilities if not properly monitored. Weak procurement controls may allow procurement officers to manipulate tender specifications, create fictitious suppliers, split contracts to avoid approval thresholds, approve inflated invoices, or collude with contractors without detection (Thai, 2017).

ACFE (2024) identifies weak internal controls as one of the leading causes of occupational fraud worldwide. Similarly, the Organisation for Economic Co-operation and Development (OECD, 2023) observes that procurement remains one of the public sector functions most susceptible to corruption because procurement officials often exercise considerable discretion over supplier selection and contract management.

Examples of procurement fraud opportunities include:

- inadequate supplier verification procedures;
- poor segregation of procurement and payment functions;
- weak contract monitoring;
- ineffective internal audit systems;
- lack of transparency in bid evaluation;
- management override of procurement regulations; and
- insufficient whistle-blower protection.

When such weaknesses exist, employees and external suppliers can collaborate to manipulate procurement processes for personal enrichment. These fraudulent activities often result in financial losses, procurement inefficiencies, delayed project completion, poor-quality goods and services, and reputational damage to organizations.

Rationalisation

Rationalisation refers to the psychological process through which fraud perpetrators justify or excuse their dishonest actions. According to Cressey (1953), most individuals do not initially view themselves as criminals. Instead, they develop mental justifications that allow them to perceive fraudulent behaviour as acceptable or necessary under particular circumstances.

Employees involved in procurement fraud often rationalise their actions by believing that they are underpaid, unfairly treated, or merely borrowing organizational resources. Others may argue that corruption is widespread within the organization and that refusing to participate would place them at a disadvantage compared to their colleagues. Procurement officials may also justify accepting kickbacks by claiming that suppliers voluntarily offer such incentives or that organizational resources belong to the government rather than identifiable individuals.

Common rationalisations associated with procurement fraud reflect the psychological justifications that perpetrators use to excuse or legitimise their unethical behaviour. Individuals involved in fraudulent procurement practices often convince themselves that their actions are acceptable by believing that everyone else is doing it, that the organization will not notice the loss, or that they deserve additional compensation because of perceived unfair treatment or inadequate remuneration. Others rationalise their actions by claiming that they are only borrowing the money and intend to repay it later, while some justify fraud by arguing that management is also corrupt, thereby perceiving their misconduct as no different from that of organizational leaders. In some organizational environments where unethical procurement practices have become institutionalised, perpetrators may further excuse their behaviour by asserting that this is how contracts are awarded. These rationalisations gradually erode ethical standards, normalise fraudulent behaviour, and contribute to a culture of corruption that weakens accountability, transparency, and organizational performance.

Such rationalisations gradually weaken ethical standards and normalize fraudulent behaviour within organizations. Over time, procurement fraud may become institutionalised, creating a culture where corruption is tolerated rather than condemned. This culture significantly undermines organizational integrity, accountability, and employee morale while reducing organizational performance.

On the relevance of the Fraud Triangle Theory to Procurement Fraud and Organizational Performance, the theory provides a comprehensive framework for understanding the behavioural and organizational drivers of procurement fraud. Procurement fraud rarely results from a single factor; rather, it emerges when pressure, opportunity, and rationalisation coexist. For example, a procurement officer experiencing financial hardship (pressure), working within an organization with weak procurement controls (opportunity), and believing that accepting kickbacks is justified because others engage in similar practices (rationalisation) is significantly more likely to commit procurement fraud.

The theory also explains why strengthening internal controls alone may not completely eliminate procurement fraud. Organizations must simultaneously reduce employee pressures through fair remuneration and welfare programmes, minimize opportunities through effective procurement governance and internal controls, and discourage rationalisation by promoting ethical leadership, transparency, integrity, and a strong organizational culture (Albrecht et al., 2019).

In relation to organizational performance, procurement fraud directly affects financial performance by increasing procurement costs through inflated contracts, duplicate payments, and unnecessary expenditures. Operational performance also suffers because fraudulent procurement practices often result in delayed projects, acquisition of substandard goods, inefficient service delivery, and disrupted supply chains. Furthermore, procurement fraud damages organizational reputation, weakens stakeholder confidence, exposes organizations to litigation and regulatory sanctions, and reduces employee morale and productivity. Consequently, organizations that effectively address the three dimensions of the Fraud Triangle are more likely to strengthen procurement integrity, improve resource utilization, and enhance overall organizational performance.

Overall, the Fraud Triangle Theory remains highly applicable to this study because it provides a robust theoretical explanation for why procurement fraud occurs and how it adversely affects organizational performance. By identifying the interrelationship between pressure, opportunity, and rationalisation, the theory offers practical guidance for developing fraud prevention strategies, strengthening internal controls, improving procurement governance, and fostering an ethical organizational culture that supports sustainable organizational performance.

6 Empirical Review

Empirical evidence from both developed and developing economies consistently demonstrates that procurement fraud constitutes a major source of corporate financial leakages and organizational inefficiency. Financial leakages arising from supply chain vulnerabilities—including procurement fraud, supplier collusion, contract inflation, false invoicing, and weak internal controls—have been shown to undermine organizational performance by increasing operational costs, reducing profitability, disrupting business operations, and eroding stakeholder confidence. Existing studies suggest that organizations with weak procurement governance are more susceptible to financial losses and reputational damage than those with robust procurement control systems.

At the international level, the Association of Certified Fraud Examiners (ACFE, 2024) reported that organizations worldwide lose approximately 5% of their annual revenues to occupational fraud, with procurement-related corruption accounting for a significant proportion of reported fraud cases. Based on an analysis of over 1,900 fraud cases across 138 countries, the report found that corruption schemes—including bribery, kickbacks, conflicts of interest, and procurement manipulation—were among the most costly forms of occupational fraud. Organizations with weak internal controls and inadequate procurement oversight experienced substantially higher financial losses than those with effective anti-fraud mechanisms. The study further established that implementing whistle-blower systems, internal audits, management reviews, and fraud awareness training significantly reduced fraud losses and improved organizational accountability.

Similarly, PricewaterhouseCoopers (PwC)'s Global Economic Crime and Fraud Survey (2022) found that procurement fraud remains one of the most prevalent economic crimes affecting multinational corporations. Surveying organizations across more than 60 countries, the study revealed that supply chain disruptions and increasing procurement complexity had expanded opportunities for fraudulent procurement activities, including vendor collusion, invoice manipulation, bid-rigging, and procurement-related bribery. The report concluded that organizations with mature governance structures, digital procurement systems, and strong compliance cultures were better positioned to minimize procurement fraud and maintain organizational performance (PwC, 2022). The Organisation for Economic Co-operation and Development (OECD, 2023) similarly identified procurement as one of the organizational functions most vulnerable to corruption because procurement decisions frequently involve large financial transactions and significant discretionary authority. According to the OECD, procurement fraud increases project costs, reduces competition, weakens service delivery, and limits the efficient use of organizational resources. The report recommends transparent procurement procedures, competitive bidding, supplier due diligence, and independent oversight as critical measures for reducing procurement-related financial leakages.

Within Europe, Rose-Ackerman and Palifka (2016) examined the relationship between corruption and public procurement across several countries and found that procurement fraud significantly inflated infrastructure costs while reducing project quality and organizational efficiency. Their analysis demonstrated that bribery, political interference, and collusion between procurement officials and contractors weakened institutional accountability and undermined organizational performance. The study concluded that stronger governance institutions and transparent procurement processes are essential for reducing procurement-related corruption.
Evidence from Asia also supports the relationship between procurement vulnerabilities and organizational performance. Basheka and Bisangabasaija (2010) examined procurement systems in developing economies and found that inadequate procurement planning, weak contract management, political interference, and poor monitoring contributed significantly to procurement fraud and financial waste. Their findings showed that organizations with stronger procurement governance achieved greater cost efficiency, improved service delivery, and higher organizational performance than organizations characterized by weak procurement controls.

In Africa, procurement fraud continues to present serious governance and management challenges. Ambe and Badenhorst-Weiss (2012) investigated procurement practices in the South African public sector and found that corruption, supplier collusion, weak internal controls, inadequate staff competence, and poor regulatory compliance significantly affected procurement performance. The study concluded that procurement irregularities resulted in increased organizational expenditure, delayed project implementation, poor-quality service delivery, and reduced public confidence in government institutions. Similarly, Onyinkwa (2013) examined fraud and internal control systems in Kenyan organizations and found that weak procurement controls significantly increased organizational exposure to procurement fraud. The study established that strengthening internal auditing, segregation of duties, procurement monitoring, and management oversight reduced opportunities for procurement fraud and enhanced organizational performance. The findings emphasized that effective corporate governance remains essential for preventing procurement-related financial leakages.

Within the Nigerian context, several empirical studies have examined procurement fraud and its implications for organizational performance. Eyaa and Oluka (2011) investigated procurement compliance and procurement performance in public organizations and found a significant positive relationship between compliance with procurement regulations and organizational efficiency. Organizations that strictly adhered to procurement procedures experienced fewer procurement irregularities and achieved better procurement outcomes than organizations characterized by weak compliance mechanisms. Likewise, Agaba and Shipman (2007) assessed procurement reform initiatives in Uganda and Nigeria and found that although procurement reforms improved transparency and accountability, weak institutional capacity, corruption, political interference, and inadequate enforcement continued to undermine procurement performance. The study concluded that procurement reforms alone are insufficient unless accompanied by effective implementation, institutional strengthening, and continuous monitoring.

In another Nigerian study, Akenbor and Ironkwe (2014) examined fraud control measures in public institutions and found that procurement fraud significantly reduced organizational efficiency through inflated contract costs, project abandonment, financial leakages, and declining public confidence. The researchers emphasized the importance of forensic accounting, internal auditing, and strengthened procurement oversight in minimizing fraud risks. Furthermore, Ocheni and Nwankwo (2012) found that corruption in public procurement contributed substantially to abandoned infrastructure projects, poor service delivery, and ineffective utilization of public resources in Nigeria. Their findings indicate that procurement fraud not only affects financial performance but also undermines organizational productivity, institutional credibility, and socioeconomic development.

Overall, the reviewed empirical literature demonstrates a consistent relationship between procurement fraud and declining organizational performance across different national and institutional contexts. Most studies identify weak internal controls, inadequate procurement governance, poor accountability, supplier collusion, ineffective monitoring, and corruption as major drivers of procurement-related financial leakages. The literature further shows that procurement fraud adversely affects organizations through increased operational costs, reduced profitability, project delays, poor-quality outputs, reputational damage, and weakened stakeholder confidence.

Despite these contributions, much of the existing literature has concentrated on public procurement reforms, anti-corruption initiatives, and procurement compliance rather than comprehensively examining how procurement fraud influences multiple dimensions of organizational performance, including financial performance, operational efficiency, productivity, service quality, and organizational reputation. Moreover, many African studies focus primarily on public sector institutions, with comparatively limited empirical evidence from private organizations. This gap justifies the present study, which seeks to examine procurement fraud and its effects on organizational performance by providing further empirical evidence on the relationship between procurement fraud and organizational outcomes.

7 Methods

This study adopts a qualitative, non-empirical desk research design based on unobtrusive (secondary data) research to examine procurement fraud and its effects on organisational performance. This research design is appropriate because it enables a comprehensive investigation of the phenomenon through the systematic review and analysis of existing documentary evidence rather than the collection of primary data from respondents. The study relies exclusively on secondary sources published within the last five to ten years to ensure the relevance and currency of the information analysed.

The secondary corpus comprises forensic audit reports, peer-reviewed academic journal articles, government publications, procurement policy documents, anti-graft agency reports and blueprints, publications from the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), the Bureau of Public Procurement (BPP), Transparency International, the Organisation for Economic Co-operation and Development (OECD), the Association of Certified Fraud Examiners (ACFE), the World Bank, as well as documented corporate procurement fraud case studies. These diverse documentary sources provide comprehensive evidence for examining the nature, drivers, manifestations, and organisational consequences of procurement fraud across different institutional contexts.

The study also employs conceptual and thematic content analysis as the primary technique for analysing the collected documentary data. This analytical approach involves the systematic examination, coding, classification, and interpretation of textual information to identify recurring concepts, patterns, and relationships relevant to the study objectives. The documents are reviewed and coded according to predetermined themes reflecting the key dimensions of procurement fraud and organisational performance.

8 Findings and Discussion

8.1 Systemic Drivers and Vulnerabilities of Procurement Fraud

Procurement fraud is rarely the result of isolated individual misconduct; rather, it is driven by systemic weaknesses embedded within an organization's governance, internal control environment, procurement processes, and organizational culture. These vulnerabilities create opportunities for employees, suppliers, contractors, and other stakeholders to manipulate procurement activities for personal or financial gain. The literature identifies weak governance structures, inadequate internal controls, poor transparency, ineffective oversight, supplier collusion, technological weaknesses, and unethical organizational cultures as some of the major systemic drivers of procurement fraud (Van Weele, 2022; ACFE, 2024).

8.1.1 Weak Internal Control Systems

One of the most significant drivers of procurement fraud is the existence of weak internal control systems. Internal controls are policies, procedures, and mechanisms designed to safeguard organizational assets, ensure compliance with regulations, and promote efficient operations. When these controls are inadequate or poorly implemented, procurement personnel can manipulate procurement processes without detection. Weak controls often manifest through inadequate authorization procedures, poor documentation, ineffective supervision, and the absence of regular internal audits (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013). The ACFE (2024) identifies weak internal controls as one of the leading contributors to occupational fraud globally. Organizations lacking effective procurement controls are more susceptible to fraudulent practices such as contract inflation, duplicate payments, fictitious vendors, false invoicing, and unauthorized procurement transactions. Consequently, strengthening internal control systems remains one of the most effective strategies for reducing procurement fraud and improving organizational performance.

8.1.2 Poor Segregation of Duties

Segregation of duties refers to the distribution of procurement responsibilities among different individuals to prevent any one employee from controlling all stages of a procurement transaction. Where one officer is responsible for supplier selection, contract approval, goods receipt, and payment authorization, opportunities for procurement fraud increase substantially. Poor segregation of duties enables procurement officials to create fictitious suppliers, manipulate procurement records, approve inflated invoices, and conceal fraudulent transactions without independent verification (Singleton & Singleton, 2010). Effective segregation of procurement responsibilities ensures that procurement decisions are independently reviewed, thereby reducing opportunities for fraud and financial leakages.

8.1.3 Lack of Transparency and Accountability

Transparency and accountability are fundamental principles of sound procurement governance. Transparent procurement systems ensure that procurement decisions are openly documented, competitive, and accessible for review by relevant stakeholders. Accountability requires procurement officials to justify procurement decisions and comply with established procurement laws and organizational policies. Where procurement processes lack transparency, procurement officers may manipulate tender specifications, conceal procurement information, favour preferred suppliers, or engage in non-competitive contract awards.

The Organisation for Economic Co-operation and Development (OECD, 2023) notes that opaque procurement systems significantly increase corruption risks because procurement decisions often involve considerable discretion and large financial transactions. Similarly, Transparency International (2021) argues that limited transparency in procurement processes facilitates bribery, kickbacks, bid-rigging, and political interference, thereby reducing public trust and organizational credibility.

8.1.4 Inadequate Monitoring and Oversight

Effective monitoring is essential for detecting procurement irregularities before they result in significant financial losses. Weak monitoring mechanisms—including ineffective internal audits, infrequent procurement reviews, limited management supervision, and inadequate external oversight—allow procurement fraud to remain undetected for extended periods. The ACFE (2024) reports that fraud schemes are detected more quickly in organizations that maintain active internal audit functions, whistle-blower mechanisms, and regular management reviews. Conversely, organizations with weak monitoring systems experience larger fraud losses because fraudulent activities remain concealed over longer periods.

Independent procurement audits, supplier performance evaluations, contract monitoring, and continuous procurement risk assessments are therefore essential components of effective procurement governance.

8.1.5 Supplier Collusion and Bid-Rigging

Supplier collusion represents one of the most common vulnerabilities within procurement systems. Collusion occurs when competing suppliers cooperate rather than compete, often by agreeing in advance which supplier will win a contract while others submit intentionally uncompetitive bids. Such arrangements eliminate competitive pricing and increase procurement costs.

Bid-rigging schemes may involve suppliers acting independently or collaborating with procurement officials to manipulate tender outcomes. According to the OECD (2009), bid-rigging substantially inflates procurement costs, reduces market competition, and undermines value for money. Procurement officers who receive kickbacks from suppliers may deliberately design tender specifications that favour predetermined contractors, thereby excluding legitimate competitors.

Supplier collusion often leads to inflated contract prices, poor-quality goods and services, delayed project implementation, and declining organizational performance.

8.16 Conflict of Interest

Conflict of interest arises when procurement officials use their official positions to advance personal, family, political, or business interests. Such conflicts compromise objectivity during supplier evaluation and contract award decisions. Procurement officers may award contracts to companies owned by relatives, business associates, or political allies despite the existence of more qualified suppliers. In many organizations, undeclared conflicts of interest result in favouritism, nepotism, and procurement bias, ultimately increasing procurement costs while reducing procurement efficiency (Thai, 2017). Organizations that fail to enforce conflict-of-interest disclosure policies become increasingly vulnerable to procurement fraud and reputational damage.

8.1.6 Weak Ethical Culture and Organizational Governance

Organizational culture plays a critical role in influencing employee behaviour. Organizations characterized by poor ethical leadership, weak corporate governance, and tolerance for unethical conduct are more likely to experience procurement fraud. According to the COSO (2013) Internal Control Framework, the control environment—including management integrity, ethical values, governance structures, and accountability—forms the foundation of effective internal control systems. Where senior management demonstrates unethical behaviour or fails to sanction procurement misconduct, employees may perceive fraudulent behaviour as acceptable.

An unethical organizational culture encourages rationalisation of fraud, reduces employee commitment to procurement regulations, and weakens compliance with procurement policies.

8.1.8 Political Interference and Abuse of Discretionary Authority

Political interference constitutes a major driver of procurement fraud, particularly within public sector organizations. Senior political officeholders may influence procurement decisions by directing procurement officers to award contracts to politically connected suppliers regardless of competitive bidding outcomes.

Similarly, excessive discretionary authority vested in procurement officials without corresponding accountability mechanisms increases procurement fraud risks. Officials may manipulate supplier qualification criteria, alter procurement specifications, or approve unjustified contract variations for personal benefit (World Bank, 2020). Reducing discretionary authority through standardized procurement procedures and digital procurement systems enhances transparency and minimizes procurement manipulation.

8.1.9 Technological and Digital Vulnerabilities

The increasing adoption of electronic procurement (e-procurement) systems has improved procurement efficiency and transparency while simultaneously introducing new fraud risks. Cybercriminals increasingly exploit weaknesses within electronic procurement platforms through unauthorized vendor registration, invoice manipulation, payment diversion, phishing attacks, and alteration of procurement records.

Although digital procurement systems provide improved audit trails, organizations lacking robust cybersecurity frameworks remain vulnerable to cyber-enabled procurement fraud. Consequently, organizations must complement e-procurement with strong cybersecurity measures, access controls, data encryption, and continuous system monitoring (World Bank, 2020).

8.1.10 Inadequate Staff Competence and Training

Procurement systems are also vulnerable when procurement personnel lack adequate professional competence, technical knowledge, and ethical awareness. Poorly trained procurement officers may fail to identify procurement irregularities, detect forged documentation, or apply procurement regulations correctly.

Continuous professional development, procurement certification programmes, fraud awareness training, and ethics education significantly improve procurement integrity by equipping procurement personnel with the knowledge required to prevent, detect, and report procurement fraud (Lysons & Farrington, 2020).

8.1.11 Weak Regulatory Enforcement

The existence of procurement laws alone does not guarantee procurement integrity. Procurement fraud often persists because of weak enforcement of procurement regulations, delayed investigations, inadequate sanctions, and ineffective judicial processes.

In many developing countries, procurement offenders frequently escape prosecution due to political influence, institutional weaknesses, corruption within oversight agencies, and prolonged legal proceedings. Weak enforcement reduces the deterrent effect of procurement regulations and encourages repeated procurement misconduct (United Nations Office on Drugs and Crime (UNODC), 2013).

8.2 Typologies and Manifestations of Procurement Fraud in the Supply Chain

Procurement fraud manifests in numerous forms throughout the supply chain and can occur at virtually every stage of the procurement cycle, from needs assessment and supplier selection to contract execution, payment processing, and inventory management. Supply chains involve multiple stakeholders—including procurement officers, suppliers, contractors, logistics providers, warehouse personnel, and finance officers—creating opportunities for fraudulent practices when governance systems and internal controls are weak. Procurement fraud may be perpetrated by individuals acting alone or through collusion between internal employees and external suppliers, resulting in significant financial losses, operational inefficiencies, reputational damage, and reduced organizational performance (Van Weele, 2022; ACFE, 2024).

8.2.1 Bid-Rigging

Bid-rigging is one of the most common forms of procurement fraud in supply chains. It occurs when competing suppliers secretly collaborate to manipulate the outcome of a competitive bidding process by determining in advance which supplier will submit the winning bid. Instead of competing fairly, participating firms agree to inflate prices, rotate winning contracts, or submit intentionally uncompetitive bids to create the appearance of competition (OECD, 2009). Common forms of bid-rigging include bid suppression, where competitors deliberately refuse to submit bids; complementary bidding, where competitors submit deliberately high or unacceptable bids; bid rotation, where suppliers take turns winning contracts; and market allocation, where suppliers divide customers or geographical markets among themselves. These practices eliminate genuine competition, increase procurement costs, reduce value for money, and compromise procurement integrity.

8.2.2 Bribery and Kickbacks

Bribery and kickback schemes are among the most prevalent manifestations of procurement fraud. Bribery occurs when suppliers offer money, gifts, favours, travel benefits, or other inducements to procurement officials to influence procurement decisions. Kickbacks involve procurement officers receiving secret payments or commissions after awarding contracts to preferred suppliers, often irrespective of price competitiveness or product quality (Thai, 2017). These fraudulent arrangements distort supplier selection processes, encourage contract inflation, and result in the procurement of inferior goods and services. Organizations affected by bribery frequently experience increased procurement expenditure, reduced operational efficiency, and declining stakeholder confidence.

8.2.3 Conflict of Interest

Conflict of interest arises when procurement officials participate in procurement decisions involving companies in which they, their family members, or close associates have financial or personal interests. Such conflicts compromise objectivity and fairness during supplier evaluation and contract award processes. Undisclosed conflicts of interest may lead procurement officers to favour particular suppliers despite better alternatives being available. These practices weaken procurement transparency, encourage nepotism and favouritism, reduce competition, and increase procurement costs (UNODC, 2013).

8.2.4 Phantom Vendors

Phantom vendor fraud involves the creation of fictitious suppliers within an organization's procurement database. Fraudsters establish fake vendor accounts using fabricated business names, forged documentation, or shell companies, enabling fraudulent payments to be processed for goods or services that were never supplied. In some cases, employees manipulate vendor registration systems to create duplicate supplier accounts linked to their personal bank accounts. Payments are subsequently authorized using false invoices and fictitious purchase orders. Phantom vendor schemes are particularly difficult to detect where organizations lack robust supplier verification procedures and independent vendor audits (ACFE, 2024).

8.2.5 Inflated Invoicing

Inflated invoicing occurs when suppliers deliberately charge organizations amounts exceeding agreed contract prices or invoice for quantities greater than those actually delivered. Procurement officials may knowingly approve these inflated invoices in exchange for kickbacks or other personal benefits. Inflated invoicing also includes overbilling through exaggerated labour costs, inflated transportation expenses, duplicate charges, or unauthorized contract variations. Such practices significantly increase procurement expenditure while reducing organizational profitability and financial performance (Lysons & Farrington, 2020).

8.2.6 False Billing and Duplicate Payments

False billing involves submitting invoices for goods or services that were never supplied, while duplicate payment fraud occurs when organizations unknowingly pay the same invoice multiple times. These schemes often result from poor invoice verification procedures, inadequate reconciliation processes, or collusion between procurement personnel and suppliers. Organizations with ineffective financial controls are particularly vulnerable to duplicate payments because procurement documentation is not independently verified before payment authorization. These fraudulent practices contribute to substantial financial leakages within organizational supply chains.

8.2.7 Delivery of Substandard or Counterfeit Goods

Suppliers may intentionally provide goods or services below contractual specifications while invoicing organizations for higher-quality products. In other cases, counterfeit products are substituted for genuine items without the knowledge of procurement officials or end users. This manifestation of procurement fraud is particularly harmful because it not only results in financial losses but also compromises operational effectiveness, product quality, customer satisfaction, employee safety, and organizational reputation. Within sectors such as healthcare, construction, defence, and manufacturing, procurement of substandard materials may have severe economic and public safety consequences (World Bank, 2020).

8.2.8 Contract Splitting

Contract splitting refers to the deliberate division of a large procurement requirement into several smaller contracts to circumvent procurement approval thresholds or competitive bidding requirements. Procurement officers use this practice to avoid higher-level authorization or public tender procedures. Contract splitting weakens procurement transparency, reduces competition, increases opportunities for favouritism, and enables fraudulent contract awards. Many public procurement laws specifically prohibit contract splitting because it undermines procurement accountability and regulatory compliance (Thai, 2017).

8.2.9 Purchase Order Manipulation

Purchase order manipulation involves unauthorized alteration of procurement documents after approval. Fraudsters may change supplier names, increase contract values, alter product quantities, or substitute specifications after procurement authorization has been granted. Such manipulation often occurs where electronic procurement systems lack effective access controls, audit trails, or segregation of responsibilities. Purchase order fraud frequently accompanies other procurement schemes such as inflated invoicing, fictitious vendors, or supplier collusion.

8.2.10 Inventory Diversion and Asset Misappropriation

Inventory diversion occurs when procured goods are stolen, diverted for personal use, or sold to unauthorized third parties before reaching their intended destination. Employees responsible for receiving, warehousing, or distributing procured materials may collude with suppliers to divert organizational assets. Asset misappropriation represents one of the most frequently reported forms of occupational fraud globally and often occurs alongside procurement fraud. Organizations experiencing inventory diversion incur replacement costs, production delays, and reduced operational efficiency (ACFE, 2024).

8.2.11 Contract Management Fraud

Procurement fraud frequently continues beyond contract award into the contract implementation stage. Contractors may submit false progress reports, exaggerate project completion levels, claim payment for unperformed work, or obtain unjustified contract extensions and cost variations. Weak contract monitoring enables suppliers to receive payments for incomplete or poor-quality work. In construction projects, for example, fraudulent contract management may result in abandoned projects, infrastructure failures, and significant cost overruns.

8.2.12 Collusion between Internal and External Parties

One of the most sophisticated manifestations of procurement fraud involves collusion between organizational employees and external suppliers. Procurement officers may disclose confidential bidding information, manipulate supplier evaluation scores, falsify procurement documentation, or deliberately ignore contractual violations in exchange for financial rewards. Supplier collusion significantly increases procurement fraud because fraudulent activities become more difficult to detect when multiple parties coordinate their actions. The ACFE (2024) reports that collusive procurement schemes generally result in substantially higher financial losses than fraud committed by individuals acting alone.

8.2.13 Cyber-Enabled Procurement Fraud

Advances in digital procurement technologies have created new opportunities for cyber-enabled procurement fraud. Criminals increasingly exploit electronic procurement systems through phishing attacks, vendor impersonation, unauthorized changes to supplier banking information, electronic invoice manipulation, ransomware attacks, and unauthorized access to procurement databases. Although e-procurement systems improve procurement transparency and efficiency, organizations lacking robust cybersecurity controls remain vulnerable to digital procurement fraud. Effective cybersecurity governance, access controls, encryption technologies, and continuous monitoring have therefore become essential components of modern procurement risk management (World Bank, 2020).

These various typologies of procurement fraud collectively undermine organizational performance by increasing procurement costs, reducing profitability, delaying project implementation, disrupting supply chains, and diminishing operational efficiency. Fraudulent procurement practices often result in the acquisition of inferior goods and services, contractual disputes, legal liabilities, regulatory sanctions, and damaged organizational reputation. Furthermore, procurement fraud erodes stakeholder confidence, discourages investor trust, and weakens employee morale, thereby compromising an organization's ability to achieve its strategic objectives (Van Weele, 2022). Organizations can reduce these vulnerabilities by implementing robust procurement governance frameworks, strengthening internal controls, adopting electronic procurement systems with strong cybersecurity safeguards, conducting supplier due diligence, enforcing segregation of duties, promoting whistle-blowing mechanisms, and fostering an organizational culture of integrity and accountability.

8.3 Impact of Procurement Fraud on Organisational Performance

Procurement fraud has far-reaching consequences for organisational performance because it undermines the efficient utilisation of resources, weakens governance systems, increases operational costs, and compromises the achievement of strategic objectives. Since procurement accounts for a substantial proportion of organisational expenditure, fraudulent procurement practices can significantly reduce financial performance, operational efficiency, service quality, employee productivity, and organisational reputation. The effects are particularly severe in organisations with weak internal controls, poor procurement governance, and inadequate oversight mechanisms (Van Weele, 2022; ACFE, 2024).

Organisational performance refers to the extent to which an organisation effectively achieves its strategic objectives through the efficient utilisation of financial, human, technological, and material resources. Performance is commonly measured using indicators such as profitability, cost efficiency, productivity, service quality, customer satisfaction, innovation, operational effectiveness, employee performance, and corporate reputation (Kaplan & Norton, 2008). Procurement fraud negatively affects each of these dimensions by diverting organisational resources from productive activities to fraudulent schemes.

8.3.1 Financial Performance

One of the most immediate consequences of procurement fraud is the deterioration of an organisation's financial performance. Fraudulent procurement practices such as contract inflation, kickbacks, phantom vendors, duplicate payments, false invoicing, and overbilling increase procurement expenditure beyond planned budgets. These unnecessary costs reduce organisational profitability, weaken cash flow, and limit the availability of financial resources for investment and growth.

According to the ACFE (2024), organisations globally lose approximately 5% of their annual revenues to occupational fraud, with procurement-related corruption accounting for a substantial share of these losses. Financial leakages arising from procurement fraud may also increase borrowing requirements, reduce shareholder value, and diminish overall financial sustainability. In public sector organisations, procurement fraud diverts scarce public resources away from essential infrastructure, healthcare, education, and social services, thereby reducing the effectiveness of government expenditure.

8.3.2 Operational Efficiency

Procurement fraud significantly reduces operational efficiency by disrupting procurement processes and delaying the timely acquisition of goods, services, and works. Fraudulent procurement decisions often result in contract disputes, delayed supplier deliveries, incomplete projects, and inefficient allocation of organisational resources.

For example, when procurement officials award contracts based on personal interests rather than supplier competence, organisations may experience delivery delays, project cost overruns, and poor contract execution. These inefficiencies reduce organisational productivity and limit the organisation's ability to achieve operational targets (Lysons & Farrington, 2020).

Furthermore, procurement fraud frequently requires organisations to allocate additional resources to investigations, litigation, audits, and corrective procurement actions, thereby increasing administrative costs and reducing operational effectiveness.

8.3.3 Product and Service Quality

Procurement fraud often leads to the acquisition of substandard goods, counterfeit materials, or poor-quality services because supplier selection is influenced by bribery, kickbacks, or favouritism rather than technical competence and quality standards.

Suppliers involved in fraudulent procurement schemes may intentionally substitute inferior products while charging organisations for premium-quality materials. In sectors such as healthcare, construction, manufacturing, and defence, procurement of substandard goods can compromise operational safety, reduce product reliability, and increase maintenance costs (World Bank, 2020).

Poor procurement decisions ultimately reduce customer satisfaction, weaken service delivery, and undermine the organisation's ability to maintain competitive advantage.

8.3.4 Productivity and Resource Utilisation

Procurement fraud contributes to inefficient utilisation of organisational resources. Financial resources intended for productive investments are diverted through fraudulent contracts, inflated invoices, fictitious suppliers, and unnecessary procurement expenditures.

When organisational resources are misappropriated, fewer funds remain available for employee development, technological innovation, infrastructure improvement, research, and business expansion. Consequently, employee productivity declines because essential operational resources become unavailable or insufficient.

Inefficient procurement also results in inventory shortages, excess inventory, equipment failures, and production interruptions that further reduce organisational productivity and profitability.

8.3.5 Organisational Reputation and Stakeholder Confidence

Corporate reputation represents one of an organisation's most valuable intangible assets. Procurement fraud damages organisational credibility by creating perceptions of corruption, poor governance, and unethical business practices.

When procurement scandals become public, organisations may lose the confidence of customers, investors, regulators, suppliers, donors, and the general public. Negative publicity often discourages potential investors, reduces market competitiveness, and weakens long-term organisational sustainability (Transparency International, 2021).
For publicly listed companies, procurement fraud may result in declining share prices and reduced investor confidence. Similarly, public institutions affected by procurement fraud often experience declining public trust and diminished confidence in government institutions.

8.3.6 Employee Morale and Organisational Culture

Procurement fraud negatively affects employee morale by creating perceptions of unfairness, favouritism, and unethical leadership. Employees who observe procurement officials engaging in fraudulent practices without appropriate sanctions may become demotivated and less committed to organisational goals.

An organisational culture characterised by corruption weakens ethical standards and encourages further misconduct. Honest employees may lose confidence in management, while unethical behaviour gradually becomes normalised within the organisation (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013).

Low employee morale often translates into reduced productivity, increased absenteeism, higher staff turnover, and diminished organisational commitment.

8.3.7 Legal and Regulatory Consequences

Organisations implicated in procurement fraud frequently face legal sanctions, financial penalties, regulatory investigations, contract cancellations, and litigation. Procurement fraud may violate procurement laws, anti-corruption legislation, competition regulations, and financial reporting standards.

Legal proceedings associated with procurement fraud consume substantial organisational resources and management time. In addition to direct financial penalties, organisations may be excluded from future procurement opportunities, lose business licences, or become ineligible for government contracts (United Nations Office on Drugs and Crime [UNODC], 2013).
These legal consequences further weaken organisational performance by increasing compliance costs and reducing business opportunities.

8.3.9 Supply Chain Performance

Procurement fraud undermines the overall performance of supply chains by disrupting supplier relationships, reducing supply chain reliability, and increasing procurement risks. Supplier collusion, bid-rigging, contract manipulation, and false invoicing reduce supply chain transparency and create uncertainty within procurement operations.

Supply chain disruptions resulting from procurement fraud often lead to production delays, inventory shortages, customer dissatisfaction, and increased logistics costs. Organisations operating global supply chains may experience additional vulnerabilities due to complex supplier networks and cross-border procurement activities (Van Weele, 2022).

Strong supplier governance, supplier due diligence, and continuous procurement monitoring therefore remain essential for improving supply chain resilience and organisational performance.

8.3.10 Corporate Governance and Decision-Making

Procurement fraud weakens corporate governance by undermining accountability, transparency, and effective decision-making. Fraudulent procurement practices distort management information because procurement decisions become driven by personal interests rather than organisational objectives.

Management may therefore allocate resources inefficiently, approve unnecessary projects, or invest in low-value contracts based on manipulated procurement information. Weak governance also reduces the effectiveness of internal controls, risk management systems, and strategic planning processes (OECD, 2023).

Consequently, procurement fraud compromises the quality of managerial decision-making and reduces the organisation's capacity to achieve long-term strategic goals.

8.3.11 Long-Term Organisational Sustainability

Beyond its immediate financial consequences, procurement fraud threatens long-term organisational sustainability. Persistent procurement fraud weakens investor confidence, discourages business partnerships, reduces customer loyalty, and limits organisational growth opportunities.

Organisations experiencing repeated procurement scandals often struggle to rebuild their reputations, attract high-quality suppliers, retain skilled employees, and secure investment capital. In extreme cases, sustained procurement fraud may contribute to organisational failure, insolvency, or dissolution (PwC, 2022).

Sustainable organisational performance therefore depends on procurement systems characterised by integrity, transparency, accountability, ethical leadership, and effective internal controls.
The literature demonstrates that procurement fraud significantly impairs organisational performance across financial, operational, strategic, and reputational dimensions. These adverse effects highlight the importance of strengthening procurement governance through robust internal controls, segregation of duties, transparent procurement procedures, supplier due diligence, electronic procurement systems, continuous auditing, whistle-blower protection, and ethical leadership.

Organisations that invest in effective procurement governance are better positioned to minimise fraud risks, improve operational efficiency, optimise resource utilisation, strengthen stakeholder confidence, and achieve sustainable organisational performance. Accordingly, preventing procurement fraud should be regarded not merely as a compliance obligation but as a strategic imperative for enhancing overall organisational effectiveness.

9 Conclusion

Procurement fraud remains one of the most significant threats to organisational performance because it undermines the integrity, efficiency, and effectiveness of procurement systems that are central to organisational operations. This study has demonstrated that procurement fraud is not merely the consequence of individual misconduct but rather the product of systemic governance deficiencies, weak internal controls, inadequate oversight, poor ethical culture, supplier collusion, and ineffective regulatory enforcement. These institutional vulnerabilities create opportunities for fraudulent practices such as bid-rigging, kickbacks, phantom vendors, contract inflation, false invoicing, conflict of interest, contract splitting, inventory diversion, and cyber-enabled procurement fraud to occur across the procurement cycle. The persistence of these fraudulent practices highlights the need for organisations to adopt comprehensive governance frameworks that address both the behavioural and structural drivers of procurement fraud.

The review further established that procurement fraud has profound implications for organisational performance. Beyond the immediate financial losses arising from inflated contracts, duplicate payments, and fraudulent procurement transactions, procurement fraud reduces operational efficiency, disrupts supply chains, compromises product and service quality, weakens corporate governance, damages organisational reputation, lowers employee morale, and erodes stakeholder confidence. These consequences ultimately diminish organisational competitiveness, sustainability, and the capacity to achieve strategic objectives. The findings therefore reinforce the proposition that procurement integrity should be regarded as a strategic component of organisational performance rather than merely an administrative or compliance function.

Overall, the study underscores the necessity for organisations to strengthen procurement governance through robust internal control systems, effective segregation of duties, transparent procurement procedures, continuous auditing, supplier due diligence, ethical leadership, whistle-blower protection mechanisms, and the adoption of secure digital procurement technologies. Equally important is the need for continuous capacity building for procurement professionals and stronger enforcement of procurement regulations by oversight and anti-corruption institutions. By addressing the systemic vulnerabilities that facilitate procurement fraud, organisations can minimise financial leakages, enhance accountability, improve operational efficiency, strengthen stakeholder trust, and achieve sustainable organisational performance. Procurement fraud prevention should therefore be viewed not only as a risk management priority but also as a strategic imperative for long-term organisational success.

10. Recommendations

Based on the findings of this study and the evidence synthesised from the empirical literature, several recommendations are proposed to mitigate procurement fraud and enhance organizational performance. The recommendation include:

i. **Organizations should establish strong internal control systems:** Strong internal controls help prevent, detect, and reduce procurement fraud by ensuring proper authorization, monitoring, and accountability.

ii. **Procurement procedures should be transparent and competitive:** Transparent and competitive procurement promotes fairness, reduces opportunities for corruption, and ensures value for money.

iii. **Regular audits should be conducted to detect irregularities:** Regular internal and external audits enable organizations to identify procurement irregularities early and implement timely corrective actions.

iv. **Employees should receive ethics and anti-fraud training:** Continuous ethics and anti-fraud training increases employees' awareness of fraudulent practices and promotes a culture of integrity and compliance.

v. **E-procurement systems should be adopted to improve accountability:** Electronic procurement systems enhance transparency, improve record-keeping, and reduce opportunities for procurement manipulation.

vi. **Whistleblower protection policies should be strengthened:** Strong whistleblower protection encourages employees and stakeholders to report suspected fraud without fear of retaliation.

vii **Strict disciplinary measures should be imposed on fraud offenders:** Consistent enforcement of disciplinary measures deters fraudulent behaviour and reinforces accountability within the organization.

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