

CULTURE AND ITS EFFECT ON FRAUD WITH INTERVENING MORALITY VARIABLE

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ABSTRACT

This study aims: 1) to test cultural constructs; 2) to test the direct influence of culture, salary satisfaction and motivation towards fraud; 3) to test the mediated cultural influence with morality towards fraud. Observations were made on 107 apparatus in local government organizations in Bangkalan District of East Java. The test uses structural equation modeling. The test results on cultural constructs consist of innovation and risk taking, attention to detail, outcome orientation, people orientation, team orientation, aggressiveness and stability using covariance analysis to prove that the model is not fit. Then, testing with 90 data using a variant base. The research model that includes salary satisfaction is not fit; therefore the salary satisfaction variable is excluded from the model. The results of the study conclude that culture and motivation have a significant effect on fraud, while culture has a negative effect on fraud through morality. These results support of an indirect cultural influence on fraud. This result proves that fraud events that befell the apparatus in Bangkalan District of East Java due to the lack of morality.

Keywords: *Cultural, Fraud, Morality, Motivation, Satisfaction*

1. INTRODUCTION

Based on data from the Corruption Eradication Commission (KPK) nationally, dated June 30, 2017, the KPK has handled forty nine cases of corruption cases, some of which came from bribery types as many as thirty seven cases, budget cases of one case, corruption in procurement of goods and services in eight cases, two cases of money laundering, and one case of licensing corruption. If you see the criminal act of corruption based on its institution, dated June 30, 2017, according to the KPK, handling corruption in 2017 is more

common among ministries/institutions, reaching nineteen cases, the provincial government as many as ten cases, DPR and DPRD as many as seven cases, and BUMN / BUMD as many as eleven cases (KPK, 2013).

Bangkalan Regency is a lagging region with the highest poverty and unemployment rates in East Java Province. This happened because of the many cases that hit the Bangkalan District of East Java apparatus. Cases of APBD corruption and money laundering crimes involving former Bangkalan District

of East Java. Besides that, the case of trading of each other CPNS SK case is also related to the demand for rations of 10% of some Regional Work Unit (SKPD) budget allocation. The indictment was also charged for the monthly quota of each investor in Bangkalan District of East Java starting from Rp.200 million to Rp.1 billion throughout his term. Village funds were also in the spotlight after the number of sub district officials caught by the KPK (www.detik.com).

According Simanjuntak (2007: 107) in Oktaviana (2016), there are several factors that can affect a person's mentality to do fraudulent acts such as salary satisfaction. Salary satisfaction it can be interpreted that someone will feel satisfied with a wage obtained, when the perception of the salary they earned was in accordance with what they expected (Sulistiyowati, 2007). If the salary is received small, the tendency to commit fraud will increase. Although on the contrary, if the salary received is large, then the tendency to commit fraud will be low. The researcher proxies the element of incentive/pressure as salary satisfaction variable.

Individual morality can also affect a person's mentality to commit fraud. Individual morality like whole as well as principles and poorly human nature (Damayanti, 2016). People who have low levels of moral reasoning tend to do things that benefit themselves and tend to commit acts that are illegal. Conversely, people who have a high-level of moral reasoning will avoid things that can lead to legal

sanctions. So based on this, in this study the researchers' proxies the element of opportunity as a variable of individual morality.

According to Eliza (2015), the tendency of cheating is also influenced by factors from within the individual itself. Individuals who have high levels of integrity tend to be honest and vice versa. This is supported by the third side of the fraud triangle of rationalization. Rationalization is a very difficult condition to be measured because for those who are not honest it may be easier to rationalize the act of fraud. Conversely, those with high moral standards are relatively not doing fraud.

Organizational cultural factors can also influence a person to commit fraud. Organizational culture is the norm, values, behavior and assumptions, and beliefs which are forms of how individuals organize, behave and do things. The existence of a strong organizational culture and a high ethical support pattern will have a strong and positive influence on employee behavior. So that the higher the organizational culture, it can suppress acts of fraud committed by employees this is because a good organizational culture can shape employees to have fear, and have a sense of pride as someone who has become part of an organization (Sulistiyowati, 2007). Based on this, the researcher made the organizational culture variable as a proxy of the element of rationalization. A person's work motivation can also affect individual behavior. According to Siagian (2003; 138) in Oktaviana (2016)

motivation can result in an organizational member being willing to exert all his abilities in the form of skills or labor skills and the time to carry out various activities that are his responsibility and carry out his obligations. In this case, work motivation can affect an individual in conducting fraud.

Junaidi and Ubaidilah (2017) examine morality as a moderating variable that explains fraud. The results of the study failed to prove the interaction of morality with the internal control system and the suitability of compensation in explaining fraud in Pemekasan Regency. The results of a study using quasi experiments concluded that there was an interaction between the control and compensation systems which had a significant negative effect on fraud. Research supporting this hypothesis was carried out by Puspitasari (2012), Dewi (2015), and Krisdayanthi (2015). Puspitasari and Suwardi (2012) conclude that internal control systems at high individual moral levels have a significant effect on reducing accounting fraud.

2.LITERATURE REVIEW

Fraud Triangle Theory is an idea that examines the causes of fraud. This Fraud Triangle Theory concept was first put forward by Cressey (1953) on Tuannakotta (2010) which states that fraud triangle consists of three components, namely Pressure, Pressure and rationalization. Diamond fraud is a new view of the phenomenon of fraud proposed by Wolfe and Hermanson (2004) on Tuannakotta

(2010). Basically this theory has four elements, the first to third elements are the same as the diamonds theory. The fourth element proxy is the capability of this theory is motivation. Motivation in the form of abilities and encouragement that arise from within a person to carry out a job. Motivation is characterized by the desire to progress, competitiveness, cooperation and fulfillment of needs. Aviora (2005), Kurniawan (2013) and Henzani (2013) concluded that motivation has a significant positive effect on accounting fraud.

A thread of studies explained the management fraud in light of the moral and ethics theories. Krisdayanthi (2015) distinguishing accounting fraud between individuals who have a high-level of moral reasoning and a low-level of moral reasoning. This study uses compensation adjustment as a moderation variable. The results of this study indicate there are differences between individuals who have high moral levels and individuals who have low moral levels in accounting fraud.

This study supports the findings Maroney and McDevitt (2008) that the participants' level of moral reasoning and their assessed influence of the Sarbanes-Oxley Act were significantly positively associated with the amount of loss recognized through their financial statement adjustment decisions. Identical research results are Puspasari and Suwardi (2012) which concludes that the condition of internal control elements does not affect individuals with high moral

levels to tend not to commit accounting fraud. While individuals with low-moral level tend to commit accounting fraud when there is no element of internal control. Morality is an innate (influenced by neural patterns) behavior, encompassed by the doctrine of right (legal obligation) and the doctrine of virtue (ethical duties), and should provide the greatest good (utilitarianism).

The manager fraud behavior is influenced by several factors such as an intrapersonal (attitude, values, belief, and personality traits), social (social norms and controls), institutional (policies, laws, rules and regulations), and ethical factors (personal moral value and organization value/culture). Pristiyanti (2012), states that the better the culture organization in a government, the lower the perception government officials regarding corruption. Similar results from Werastuti, Darmawan and Noviriantini (2015), state that there is a negative and significant influence between the organization's ethical cultures on fraud in the Jembrana District SKPD.

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The population in this study are all employees of the financial section in Bangkalan regional government Organizations, the province of East Java, Indonesia. The acquisition of samples using the technique of Sampling Purpose. According to Sugiono (2015) sampling techniques using multipurpose sampling is a technique of determining the sample with a

particular consideration. The following is a sample criteria:

1. Employees who carry out the accounting and reporting functions in the preparation of the financial statements.
2. At least has experience working in the financial section for one year.
3. The apparatus that was sampled included the SKPD Leader, Expenditure Treasurer, Secretary, Computer Operator (SABK), Finance Section, Financial Administration Officer (PPK), SAPA, Commitment Making Officer (PPK), Acting Paying Signatory (PPSPM) because they were considered.

Testing is done to determine whether the statistical tools used with co-variance and/or variants base.

4.RESULT AND DISCUSSION

The concept of the development of the theory on this research are the estimation of the culture constructs. Data processing using Amos's software. Test results are as follows:

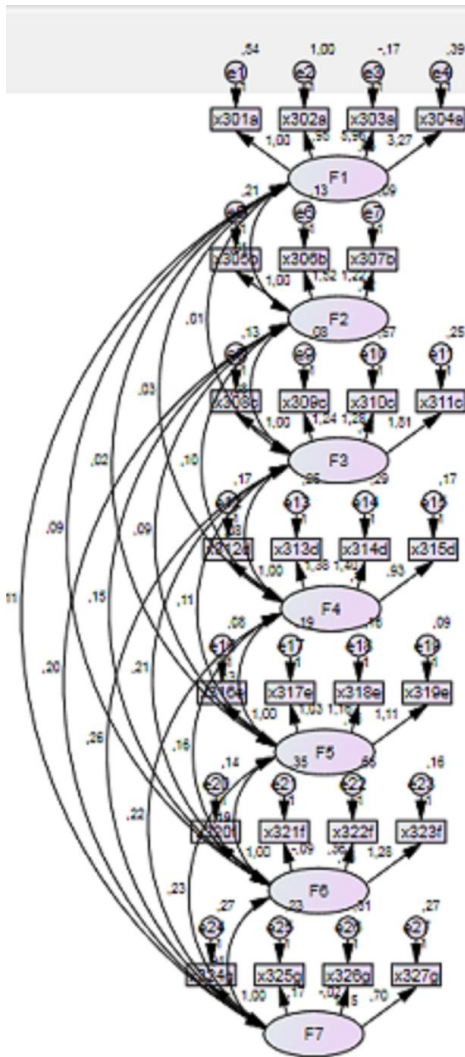


Figura1: Test the Culture Constructs Model using Amos

The results of first hypothesis based on data using Amos. According to Ghozali (2006) models fit or not required at testing structural equation models. Testing conducted with the use of Chi-Square. Chi-Square values 1067,3 and negative variant value. These results concluded that the model is not fit to do a test of the hypothesis using the estimation. Research was continued by using partial least square with base variants. The statistical tools used is SmartPLS. Through testing farthest from the centroid

observations (Mahalanobis distance) data 107 outliers were issued as many as 17. Based on testing data 90 obtained the results above. Chi-Square testing is done to prove whether the model is fit or not.

Table 1: Test the Model

Model_Fit

	Saturated Model	Estimated Model
SRMR	0.063	0.067
d_ULS	0.314	0.353
d_G1	0.352	0.344
d_G2	0.185	0.179
Chi-Square	97.020	91.794
NFI	0.870	0.877

Source: the Data processed by the year 2018

Based on the table one of the smartPLS, the Chi-Square value is $97,2 > 1,96$ this proves that the model is fit. The questionnaire included in the observation can be done testing bootstrapping.

Test results of hypothesis, with the following results.



Figura2:Smartpls Test Results using Variable Intervening Morality

Based on the table two, all hypotheses are supported. Culture and morality have a significant negative coefficient of fraud; on the contrary, as previously thought, motivation has a significant positive

coefficient of fraud. Culture has a significant positive effect on morality. This result is in accordance with the figure that the calculated t value for all hypotheses is > 1.96 .

Table 2: Test Results of Path Coefficient

Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O /STDEV)	P Values
budaya -> fraud	-0.351	-0.367	0.121	2.901 0.004
budaya -> moral	0.343	0.353	0.073	4.696 0.000
moral -> fraud	-0.361	-0.352	0.089	4.067 0.000
motiv -> fraud	0.205	0.200	0.081	2.546 0.011

Source: The Results of The Data Processing, 2018

Based on the table two obtained summary as follows:

1. The second objective of this research is to examine the influence of culture and motivation on fraud. This result support the successful Puspitasari (2012), Dewi (2015), Patterson (2001), Moroney and Mcdevitt (2008), Thoyibatun (2009), Downid a and Riharjo (2017), Siagian in Oktaviana (2016), Sulistiyowati (2007), Aviora (2005), Kurniawan (2013) and Henzani (2013). The Culture has a significant negative effect on fraud. Motivation has a significant positive effect on fraud.
2. Culture variable have inderect effect after intervening with morality variable against fraud. The results of this study do not support the successful research Puspitasari (2012), Puspitasari and Suwardi (2012), Dewi (2015), Krisdayanthi (2015), Pristiyanti (2012), Shintadevi (2015), Pradnyani (2014) and Maroney and McDevitt (2008). This result not support with

Puspasari and Suwardi (2012) and Junaidi and Ubaidillah (2017).

The following is the result of testing the total effect.

Table 3: Test Results of Total Effect

Original Sampl...	Sample Mean (...)	Standard Devia...	T Statistics (O...	P Values
budaya -> fraud	-0.475	-0.489	0.118	4.033 0.000
budaya -> moral	0.343	0.353	0.073	4.696 0.000
moral -> fraud	-0.361	-0.352	0.089	4.067 0.000
motiv -> fraud	0.205	0.200	0.081	2.546 0.011

Based on the total effect table above, it can be seen that the t-statistics > 1.96 means that the hypothesis that the culture is mediated by morality affects fraud cannot be rejected. This happens because culture also negatively significantly affects fraud. The following also negative morality significantly affects fraud. This result is also supported by the results of testing the influence of culture on fraud indirectly and through the mediation variable morality is -0.124 . The value of t-statistics of $3.459 > 1.96$ means this indirect effect is significant. Ghozali (2007) argues that the determination of intervening variables depends on the form of the theory. For example, on model A to B to C where it is clear that the relationship of A to C is not direct, it must go through B. if A to B is significant, and B to C is also significant, then B is intervening. A to C relationship is not directly through B.

The R-square test done to see the ability to explain, with the following results.

Table 4: R Square Test

R Square

Matrix	R Square	R Square Adjusted
	R Square	R Square Adjus...
fraud	0.403	0.382
moral	0.118	0.108

Source: The Data Processing Results, 2018

Based on table four the model is able to explain the fraud amounted to 40,3%. The ability to explain morality amounted to 11.8%.

5. CONCLUSION

The results of this study conclude that cultural constructs and morality are able to suppress the fraudulent behavior of the apparatus. In addition to having a direct cultural relationship, it also has an indirect relationship in explaining fraudulent behavior of the authorities. This has succeeded in supporting the indirect influence of moral-mediated culture in suppressing fraudulent behavior by the apparatus. In accordance with the diamond theory and the fraud triangle that motivation has a significant positive effect on the fraudulent behavior of the apparatus. We hope the corruption eradication event by KPK will not be repeated in Bangkalan Regency.

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