

RELATIONSHIP AMONG ETHICAL VALUE AND FRAUD DIAMOND IN BANKING INDUSTRY DURING PANDEMIC

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Volume: 3
Number: 2
Page: 343 - 350

Article History:

Received: 2022-04-11

Revised: 2022-05-30

Accepted: 2022-07-18

Abstract:

The occurrence of an economic crisis and the company's operating conditions that are different from usual during the pandemic can result in the emergence of loopholes in committing fraud. This study aims to investigate the relationship between ethical values and the fraud diamond, namely, pressure, opportunity, rationalization, and capability against bank employee fraud during the pandemic. Thus, this research is expected to make a theoretical contribution to the development of fraud theory and a practical contribution to policymakers in preventing fraud in the banking industry. The methods research is a quantitative study with primary data sourced directly from online survey responses. The respondents of this research are followed by 133 bank employees in Indonesia. Based on the Rank Spearman Correlation test, the factors that significantly influence bank employee fraud during the pandemic are ethical values, opportunity, rationalization, and capability. Pressure has no significant effect on bank employee fraud. Furthermore, rationalization has a significant relationship with all variables tested, especially on capabilities, ethical values, and employee fraud. These results suggest that the banking industry anticipates wrong rationalizations from employees regarding fraudulent acts. Instilling ethical values is believed to be able to direct the right rationalization so that employees do not take advantage of their abilities to commit fraud in the workplace.

Keywords: Ethical Value, Fraud Diamond, Banking.

Cite this as: WULANDITYA, P., ARDIANTO, H., SISTIYARINI, E. (2022). "Relationship Among Ethical Value And Fraud Diamond In Banking Industry During Pandemic." *International Journal of Environmental, Sustainability, and Social Sciences*, 3 (2), 343 - 350.



INTRODUCTION

Economic instability due to the pandemic has the effect of increasing the occurrence of fraud. The main reason fraud is proliferating is the increasing pressure companies and employees feel as they struggle to cope with the challenges of a sluggish economy. According to Dorris (2020) the pressure of the economic crisis allows company employees to target the company itself. The occurrence of an economic crisis and the company's operating conditions that are different from usual during the pandemic can result in the emergence of loopholes in committing fraud. Employees' personal financial pressures tend to increase. Opportunities can also be exacerbated by downsizing employees, which increases the gap for fraud to occur, and rationalization from employees, which further triggers them to commit fraud. However, the development of employee motivation in committing fraud is not only limited to pressure, opportunity, and rationalization as stated in the fraud triangle theory by Cressy (1953). Wolfe & Hermanson (2004) added one more factor, namely capability, so it is called the fraud diamond theory. With the element of capability, the possibility of fraud can become even stronger.

Abdullahi & Mansor (2017) revealed that further research related to the fraud diamond theory is still needed. The two theories converge on three elements, namely: first, pressure to commit fraud; second, opportunities to take advantage of organizational weaknesses and third, rationalization which is a way to justify the course of action. Furthermore, it is necessary to consider the element of capability which is the reinforcement of the three elements. However, the fraud diamond theory can still develop. Sorunke & Abayomi's research (2016) states that both

theories ignore important factors such as the personal ethics of fraud perpetrators. Sujeewa et al. (2018) support that the high ethical values of employees can reduce the possibility of fraud in the company. This study suggests further research to explore ethical factors in preventing fraud. Krummeck (2008) further reveals the important role of ethics in preventing fraud, especially in the banking sector.

The ACFE global fraud survey (2020) revealed that the percentage of fraud cases in work most frequently occurred at the level of employees to managers. Based on the type of industry, banking and financial services accounted for the most cases compared to other industries. Shonhadji (2021) reveals that the development of information technology and the number of access to financial transactions using banking services continues to be accompanied by fraud that still occurs in the banking industry in Indonesia. Many cases of fraud that are revealed to the public are known as behavioral deviations from bank employees (Dewi et al., 2021). Therefore, this study is interested in further investigating the fraudulent behavior of bankers, especially during the pandemic. This research is motivated by the research gap between ethical values, factors in the diamond fraud theory, and fraud in the banking sector (Kazemian et al., 2018; Peprah, 2018; Said et al., 2017; Zuberi & Mzenzi, 2019).

Kazemian et al. (2018) examines the examination of risk factors for fraudulent asset abuse in the banking industry in Iran which shows the results that there is an influence of four factors from the diamond fraud theory on employee fraud. Said et al.'s research (2017) integrates ethical values into the triangle fraud theory in Malaysia's context of the banking industry. The study results prove that ethical values have a negative effect on employee fraud, and conversely two of the elements of the fraud triangle theory, namely opportunity and rationalization have a positive effect on employee fraud. Zuberi & Mzenzi (2019) conducted a study that explored the motivational factors, rationalizations, and opportunities for employee and management fraud in Tanzania. Peprah (2018) in her research found a positive linear relationship between the four elements of the diamond fraud theory. Based on the correlation between the elements of Capability-Opportunity, Capability-Rationalization, and Pressure-Rationalization which provide large predictions of fraud, Opportunity-Rationalization provides moderate predictions, while Capability-Pressure and Pressure-Opportunity provide small predictions of fraud.

This research was motivated by the research of Said et al. (2017), which integrates ethical values into the fraud triangle theory in assessing employee fraud in the banking industry and Peprah (2018), which predicts the relationship between the elements in the fraud diamond theory and what the level is in detecting fraud early on. This study investigates more deeply than that research. The addition of the ethical value variable and the use of the variables in the fraud diamond theory (pressure, opportunity, rationalization, and capability) are used to examine its effect on employee fraud in the banking industry.

In addition to knowing the effect between variables, this study also wants to know the relationship between these variables in predicting bank employee fraud, especially during the pandemic. As far as the researcher's knowledge is concerned, this research only applies ethical values to the fraud diamond theory from the perspective of banking employees. Thus, this research is expected to make a theoretical contribution to the development of fraud theory and a practical contribution to policymakers in preventing fraud in the banking industry.

METHODS

This research approach is a quantitative study with primary data sourced directly from online survey responses. The respondents of this research are bank employees. The technique of distributing the questionnaire used a non-probability sampling snowball technique. Nurdiani (2014) revealed that the use of this method could be used to find samples that are difficult to access, considering that this research was carried out during the pandemic, so it was carried out through online media. This method can also be used to obtain information on specific or sensitive issues because this study discusses fraud. The variables of this study are the dependent variable:

employee fraud, while the independent variables are: ethical values, pressure, opportunity, rationalization, and capability. Question items for employee fraud, ethical values, pressure, opportunity, and rationalization variables refer to the research of Said et al. (2017), while the capability variable was developed from the research of Wolfe & Hermanson (2004). The measurement of all variables uses a 4-point Likert scale, with choices 1-strongly disagree, 2-disagree, 3-agree, and 4-strongly agree for the ethical values, pressure, rationalization, and capability variables. The answer choices for employee fraud and opportunity variables are 1-never, 2-rarely, 3-often, and 4-occurring a lot. Data analysis consisted of (1) description of research subjects: age, gender, education, years of service, position, and income, and (2) hypothesis testing using Rank Spearman Correlation Test. The test results in Spearman's Rho correlation coefficient can be grouped into 3, namely, a weak correlation of 0.10 - 0.29; a moderate correlation of 0.30 - 0.49; and a strong correlation of 0.50 -1.00.

RESULT AND DISCUSSION

As many as 133 bank employees have filled out the online survey entirely and all the data can be processed further. The demographic characteristics of the respondents presented in Table 1 show that the majority of respondents are male, aged 25 to 34 years, have a bachelor's degree, 1 to 5 years experience, and a net salary of 5 to 10 years. The majority of bank employees who participated in this study worked in the marketing and collection division, front liner and back office.

Table 1. Respondents Description

Gender	Male	52%
	Female	48%
Age	Less than 25 years	15%
	25 - 34 years	54%
	35 - 44 years	23%
	45 - 54 years	8%
Education	Diploma	15%
	Bachelor	71,4%
	Master	12,8%
	Doctoral	0,8%
Job Experience	Less than 1 year	6%
	1 - 5 years	34%
	6 - 10 years	32%
	11 - 15 years	20%
	More than 15 years	8%
Job Position	Marketing & collection	26%
	Front liner	23%
	Back office	23%
	Support unit	14%
	Manager	8%
	Audit & compliance	3%
	Credit risk	3%
Take-Home Pay	Less than 5 millionRp	26%
	5 - 10 millionRp	49%
	10 - 15 millionRp	14%
	More than 15 millionRp	11%

The summary of the Rank Spearman Correlation test is presented in Table 2. These results indicate that hypothesis 2 is rejected, while hypotheses 1, 3, 4, and 5 are accepted. Hypothesis 1 which states that ethical values have an effect on employee fraud, can be proven by this study. However, the test results show that the coefficient value is significantly positive. In contrast to the results of testing hypothesis 2 which obtained the results that pressure had no significant effect. The following hypotheses, namely 3, 4, and 5 which state a significant effect of opportunity, rationalization, and capability on employee fraud, can be accepted. Next is the relationship

between independent variables that can be seen based on the correlation coefficient value. Spearman's Rho Coefficient shows a moderate relationship on Capability-Rationalization (0.488), Ethical value-Rationalization (0.356), Ethical value-Pressure (0.334) and, Capability-Opportunity (0.330), and Rationalization-Opportunity (0.311). Pressure and rationalization have a relationship but in a weak category.

Table 2. Result of Rank Spearman Correlation Test

Variable	Coefficient	Sig.	Hypothesis	Correlation
Ethical Value-Employee Fraud	.229	.008	Accepted	
Pressure	.334	.000		Moderate
Opportunity	.164	.059		-
Rationalization	.356	.000		Moderate
Capability	.124	.156		-
Pressure-Employee Fraud	.136	.120	Rejected	
Ethical Value	.334	.000		Moderate
Opportunity	.062	.479		-
Rationalization	.227	.009		Weak
Capability	.149	.087		-
Opportunity-Employee Fraud	.344	.000	Accepted	
Ethical Value	.164	.059		-
Pressure	.062	.479		-
Rationalization	.311	.000		Moderate
Capability	.330	.000		Moderate
Rationalization-Employee Fraud	.349	.000	Accepted	
Ethical Value	.356	.000		Moderate
Pressure	.227	.009		Weak
Opportunity	.311	.000		Moderate
Capability	.488	.000		Moderate
Capability-Employee Fraud	.252	.003	Accepted	
Ethical Value	.124	.156		-
Pressure	.149	.087		-
Opportunity	.330	.000		Moderate
Rationalization	.488	.000		Moderate

Influence of ethical values and diamond fraud on employee fraud. Ethical values are proven to influence employee fraud during the pandemic significantly. Several previous studies (Fernandhytia & Muslichah, 2020; Pradipta & Bernawati, 2019; Sujeewa et al., 2018) state that ethical values have a significant influence on employee fraud. However, the results of this study indicate a positive relationship between ethical values and employee fraud. Cressy et al. (2010) stated that ethics refers to agreed standards of what is desirable and undesirable, right and wrong behavior or the behavior of a person, group or entity. Employees will avoid right or wrong choices depending entirely on personal beliefs (Pradipta & Bernawati, 2019). Ethical values can differ from one person to another employee. The average respondents' answers to the ethical value questions showed a score of 2 (disagree) to 3 (agree). This indicates that the ethical values that are believed by each experience differ.

This study proves that pressure does not significantly affect employee fraud during the pandemic. These results are in line with research (Said et al., 2017), which shows no relationship between pressure and employee fraud. However, this result is different from Dellaportas (2013) which states that pressure plays an important role in increasing the likelihood of fraud among bank employees. On average, respondents answered that the work pressure they felt was quite high (score 3-agree). They also agreed with questions regarding performance pressures (such as achieving Key Performance Indicators-KPIs) and financial pressures (such as meeting family needs). Although they stated that there was high pressure in banking institutions, more than 70% of respondents never answered (score 1) or rarely (score 2) for all types of fraud. However, the remaining percentage stated that fraud is still frequent (score 3) or occurs a lot (score 4).

The test results show that opportunity has a significant positive effect on employee fraud during the pandemic. The significant effect of opportunity on fraud follows previous research (Dadzie-Dennis et al., 2018; Pradipta & Bernawati, 2019; Said et al., 2017) and supports the fraud diamond theory (Wolfe & Hermanson, 2004). However, this study found that respondents stated that there was not much cheating during the pandemic because the opportunity to cheat was also low. Responses from respondents included the assessment that the supervisory function in the banking business is very strict, operational procedures have been neatly and systematically arranged through a computerized system, and the application of prudential banking principles in maintaining the organizational reputation and customer trust. This is in line with what was revealed by Kassem & Higson (2012) and Minanari (2021) that the opportunities for employees to commit white-collar crimes can be narrowed through internal controls that are strengthened by management.

This study can prove the significant effect of rationalization on employee fraud during the pandemic. Rationalization is the justification of one or more acts of fraud. In other words, rationalization allows fraudsters to see their illegal actions as acceptable (Ruankaew & of Accounting, 2016). The results of this study indicate that the average respondent's perception of disagreeing (score 2) regarding the use of office facilities, borrowing company assets for personal use, and giving gifts from customers is not the right of employees so that it can prevent them from abusing them. Thus, in line with most respondents who stated that employee fraud has never or rarely occurred in the banking industry during the pandemic. In addition, this is also following research (Said et al., 2017) and (Kazemian et al., 2019) which reveal that rationalization can affect employee fraud, including in the banking industry.

Capability is also proven to have a significant positive effect on employee fraud during the pandemic. This finding is consistent with previous research (Avortri & Agbanyo, 2021; Dadzie-Dennis et al., 2018; Mohamed et al., 2021). These results also support the fraud diamond theory (Wolfe & Hermanson, 2004) which states that fraud will not occur without the right people with the right abilities. The more a person or group of employees has the ability, the more likely it is that fraud will occur in an organization and vice versa. The average answer of respondents in this study stated that they did not agree (score 2) regarding their ability to cheat, so there is little chance of fraud during the pandemic in banking institutions. Kassem & Higson (2012) explain that many fraud cases will not occur if the fraudster is not capable of committing the crime. It is said that personality traits and individual capabilities will have an impact on the possibility of fraud.

Relationship between variables in predicting employee fraud. The elements in the fraud diamond theory, namely pressure, opportunity, rationalization and capability are all interrelated, and the strength of each element influences the other (Mansor et al., 2015). Peprah (2018) reveals that the elements of fraud diamond theory can be used to predict fraud. This study describes how each element in the fraud diamond theory and ethical values are interrelated in predicting employee fraud in the banking industry. The correlation between the elements in Figure 1 is adopted from the pentagon fraud theory. The figure shows that the straight line marked with an arrow is a moderate correlation, while the dotted line marked with an arrow is a weak correlation. Ethical values seem to have a moderate relationship with pressure and rationalization. Apart from ethical values, pressure also has a relationship with rationalization, but the relationship is weak. Next, an opportunity has a moderate relationship with capability and rationalization.

Interestingly, rationalization is the only variable that has a correlation with the other four elements (ethical value, pressure, opportunity, and capability). This finding is in accordance with Said et al. (2017) research, which shows that rationalization makes the most substantial and most significant contribution to explaining the occurrence of employee fraud in the banking industry. Furthermore, Schwartz (2016) mentions the importance of paying attention to rationalization. Rationalization can be used prospectively (before the action) to prevent guilt and resistance or retrospectively (after the action) to allay doubts about a person's behavior. Rationalization facilitates future mistakes and fosters awareness that the action was wrong. This study also found that the strongest relationship between capability and ethical value occurred in the rationalization

variable. This result follows the findings of Peprah (2018) findings, which states that the relationship between capability and opportunity and rationalization is the most critical or major indicator of fraud. However, in this study, an opportunity was replaced by ethical value. These results indicate that the ability that is balanced by the belief in good ethical values and correct rationalization can prevent employees from committing fraud. Conversely, if poor ethical values and wrong rationalization support the high ability, it can encourage employees to commit fraud.

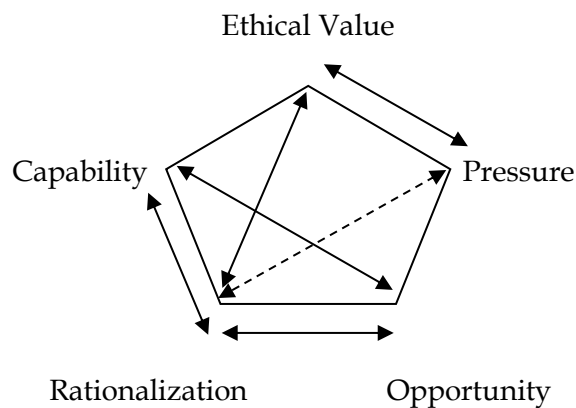


Figure 1. Relationship Between Ethical Values and Elements of Fraud Diamond

CONCLUSION

Bank employees during the pandemic. Based on the results of testing the data and the discussion that has been described previously, the following conclusions can be drawn: (1) Ethical values, opportunity, rationalization, and capability have a significant influence on bank employee fraud during the pandemic, while the pressure variable has no significant effect on fraud. This study proves that there is a positive effect of opportunity, rationalization, and capability on employee fraud which is in line with previous studies. Differences occur in the research results related to ethical value variables from previous studies, which have a negative direction, but this study shows a positive effect. (2) The relationship between ethical values variables and elements of the fraud diamond theory in predicting the possibility of fraud in the banking industry can be described by adopting the pentagon fraud theory. The results of this study indicate that all variables are interrelated, both the correlation is moderate or weak. Rationalization variable which correlates with all variables. The strongest correlation in predicting bank employee fraud, especially during the pandemic, is rationalization, capability, and ethical value.

This research is inseparable from limitations. The results of this study may be influenced by the characteristics of the respondents. The majority of bank employees who were respondents in this study with work experience in the institution where they currently work are 1 to 5 years, so they are not aware of many cases of fraud that may occur in their agency. In addition, during the pandemic, respondents felt that work in the banking industry did not experience any different from the normal situation. The company's operational activities and the internal control system must still be carried out, even though there are several obstacles, such as the marketing department which cannot meet face-to-face with customers, or other departments that have to complete tasks but cannot do so because the core banking system can only be done in the office. Thus, these conditions have caused not many bank employees to commit fraud during the pandemic. Therefore, based on the results of this study, it is expected that the banking industry will continue to pay attention to its system and policies to prevent fraud that its employees can carry out. It is necessary to continue to instill ethical values and proper rationalization so that employees do not take advantage of their abilities to commit fraud in the workplace.

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