



Trapped in Temptation: Revealing The Factors That Lead to Fraud

ABSTRACT

This research aims to empirically test various potential factors that influence the tendency to commit fraud. Fraud is a danger that always threatens the business and non-business worlds. Therefore, researchers are motivated to examine several factors that are suspected of influencing someone to commit fraud, namely the whistleblowing system, compensation suitability, and competence in addition to empirically testing ethical values as moderation. To obtain the necessary data, this study uses primary data using a questionnaire. The population in this study were employees in Finance and Banking companies in Indonesia. The number of samples in this study was 202 respondents. The data collection method was Snowball Sampling. The data analysis used was PLS-SEM. Based on the test results, it was found that a whistleblowing system with compensation suitability had a negative effect on the tendency for fraudulent acts, while competence had no effect on the tendency for fraudulent acts. This research also reveals that ethical values strengthen the relationship between the suitability of compensation and competence and the tendency for fraudulent acts, while ethical values weaken the relationship between the whistleblowing system and the tendency for fraudulent acts.

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INTRODUCTION

Fraud is a potential threat to the business world and the public sector. According to research results from the Association of Certified Fraud Examiners (ACFE), every year an average of 5% of an organization's revenue falls victim to fraud. According to the AICPA, fraud is an unauthorized act carried out with the intent to deceive and harm others, including manipulation, forgery, or embezzlement (Mahsun, 2023). Schematically, the ACFE describes fraud in the form of a "fraud tree," which includes three main categories: corruption, asset misappropriation, and fraudulent statements (Tuanakotta, 2018). Fraud is still the main enemy for an agency or company that can cause financial and non-financial problems. Basically, there are two types of fraud that occur in an agency or company, namely external and internal. External fraud is fraud committed by external parties against the company, while internal fraud is illegal actions by employees, managers, and executives against the company (Daniel et al., 2023).

The banking and financial sector is the sector that is most vulnerable to fraud. The banking and financial industry sector has a fundamental role in the economy. The banking and financial industry sector collects and distributes funds. In addition, the role of the banking sector is to support the implementation of national development, in order to increase the distribution of development and its results, economic growth, and national stabilization towards increasing the welfare of the people (Labetubu et al., 2020). In Indonesia, the banking industry has an important role in Indonesia's economic growth, developing the business world, and its impact on reducing unemployment or poverty in Indonesia. So, as one of the pillars of the Indonesian economy, the function of banks as financial intermediaries must run well (OJK, 2016).

To prevent deviant behavior and fraud, a whistleblowing system is an important part of the internal control system. A whistleblowing system is a voluntary act of disclosing fraud, which is considered prosocial behavior (Triantoro et al., 2020). The whistleblowing system aims to reveal illegal practices carried out by members of the organization to parties who can take corrective action. The whistleblowing system serves as a mechanism to encourage individuals in the organization to report

fraudulent acts they witness (Wijayanti et al., 2024). Research shows that an effective whistleblowing system can increase employee participation in reporting violations, which in turn can reduce the incidence of fraud (Putri et al., 2022).

In addition, compensation suitability is a key factor in preventing fraudulent acts in the company. This suitability refers to employee satisfaction with the rewards given, either in the form of hourly wages or periodic salaries. With fair compensation, employees are expected to feel more satisfied and motivated, thereby reducing the tendency to commit fraud (Wulandhari et al., 2023). This study shows that compensation affects the standard of living and social status of employees, which can then increase work productivity and organizational performance (Khasanah & Lastanti, 2022). Compensation suitability also plays an important role in influencing the tendency to cheat. A study shows that dissatisfaction with compensation can encourage individuals to engage in unethical behavior, including fraud (Reskino et al., 2021). Conversely, fair and appropriate compensation can reduce the incentive to commit fraud, because individuals feel valued and motivated to behave ethically (Aprillia et al., 2022). However, there is also research that shows that in some cases, high compensation can actually increase the tendency to cheat, especially if individuals feel pressured to meet unrealistic targets (Lux et al., 2022).

Competence is also an important factor in the context of fraud. Competence includes the skills, knowledge, and position of an individual that allows them to commit fraud. Fraud is often committed by individuals who have the right skills and position to carry out the fraud. Research shows that individuals with a high level of competence and a good understanding of ethics are more likely to report fraud (Citranagari, 2022; Purnamawati, 2018). In addition, proper training and increased awareness of the importance of a whistleblowing system can improve an individual's ability to detect and report fraudulent acts (Peltier-Rivest, 2018; Utami et al., 2019).

Ethical values also play an important role in preventing fraud. Ethical values regulate the behavior of individuals and groups, and are essential in the context of fraud management. Behavior patterns based on ethics must reflect honesty and integrity (Nwanyanwu, 2018). To avoid conflicts of interest, ethical guidelines must underlie the behavior of accountants in carrying out their duties. Moral values held by accountants can help prevent accounting fraud, such as financial

misstatements (Jaijairam, 2018).

Based on research conducted by the Indonesian Corruption Watch (ICW) on the trend of corruption cases in Indonesia, which have consistently increased over the past 5 years. In 2023, the increase was very significant compared to previous years, both in terms of the number of cases and suspects, where 791 corruption cases were found and 1,695 people were named as suspects. The financial and banking industry in Indonesia is suspected of having a high level of fraud. Based on ACFE Indonesia research, the party most harmed by fraud is the financial and banking industry sector at 41.4%, then the government at 33.9%. This is in line with ICW research in 2023, the banking sector experienced a significant increase compared to the previous year.

Based on ICW 2024 monitoring, law enforcement managed to catch 65 corruption cases in the financial and banking industry, where in the previous year there were 35 cases. In detail, there are 3 sub-sectors, namely, BUMN consisting of 28 cases (43%), BUMD consisting of 8 cases (12%), and other financial institutions consisting of 29 cases (45%). Fraudulent acts are still very high, occurring in both the government and private sectors. One example of a fraud case was committed by an employee of the Pegadaian Kebayoran Baru branch office in South Jakarta. The employee committed an untrustworthy act by violating the process of providing fast safe credit pawn loans (KCA). The case began because of findings from the Internal Audit Team in the period September-December 2022 which had the potential to cause state losses of tens of billions (Rahayu & Ika, 2023).

The high level of fraud in the financial and banking industry shows the importance of research on factors that have the potential to trigger fraud in this sector. As an industry that is highly dependent on public trust, the financial and banking industry is vulnerable to agency problems, where differences in interests between capital owners and management can trigger detrimental behavior. This study will explore the influence of potential factors that cause fraud and provide recommendations for better policies and practices. A better understanding of the role of competence, ethical values, monitoring systems and incentive mechanisms can help financial and banking companies strengthen integrity, increase transparency, and minimize the opportunity for fraud that is detrimental to capital owners and the wider community. This study can be used by the government and companies in the financial and banking industry

in making policies to suppress fraud. This study uses the research variables of the whistleblowing system, compensation suitability, and competence and ethical values.

This study has a fundamental difference from previous research, which generally focused on the government sector with respondents consisting of government agency employees, such as civil servants (ASN), village officials, or government auditors. Unlike previous studies, this research explores employees in the banking and financial sectors as the primary respondents. The research focus has also shifted from studies emphasizing regulations, internal control systems, and government administration to an analysis of the factors influencing employee behavior in the banking and financial industry.

Therefore, the findings of this study are expected to provide broader insights, not only in terms of policy recommendations for government institutions but also for financial institution management in understanding employee dynamics and the factors affecting ethics, performance, and decision-making in the workplace. Additionally, this study also employs ethical values as a moderator to mitigate the risk of fraudulent tendencies. Ethical values play a crucial role in shaping individual ethical attitudes, helping employees avoid unethical behavior. By integrating ethical values, whistleblowing systems, compensation suitability, and competency, an organization can create a more ethical work environment and minimize the risk of fraud.

LITERATURE REVIEW

Theory Agency

Agency theory is a branch of theory that studies the design of contracts to motivate rational agents to act on behalf of principals when the agent's interests would conflict with the principal's interests (Scott, 2015). Agency theory is a conceptual framework that examines the interaction between principals and agents. In this context, the owner of the company is the principal, while the manager or executive hired to run the company is the agent (Lubis, 2019). Agency theory is a concept in economics and management that describes the relationship between the owners (shareholders) of a company and the agents hired to manage the company. Agency theory in the banking and finance industry describes the complex relationship between capital owners who want growth with minimal risk and management

that often focuses more on short-term profits, which has the potential to cause agency problems due to information asymmetry, moral hazard risk, and adverse selection.

The agency problem was initially explored by Ross (1973), while a detailed theoretical exploration of agency theory was first stated by Jansen & Meckling (1976). The existence of information inequality between principals and agents can cause information asymmetry that leads to moral hazard (Scott, 2015). Agency theory addresses problems that arise in situations where shareholders (owners) want to achieve their goals, while managers or agents may have different incentives or conflicts of interest with the owners. Agency theory seeks to identify solutions to prevent and limit the tendency of agents to commit fraud by developing effective monitoring mechanisms so that managers and agents act in accordance with the interests of the company's owners. Some solutions that are often proposed include performance-based compensation or incentive systems, contribution contracts, supervision through whistleblowing systems, competence, ethical values and others.

Tendency to Fraudulent Actions

Fraud is a general term, and covers all kinds of means that can be used with a certain skill, which is done by an individual so as to gain an advantage over another party by using false representation. Fraud is defined as the act of using skill by an individual to gain an advantage over another party by wrongful means (Zimbelman & Alberecht, 2014). There is no fixed and fixed rule that can be issued as a general proposition in defining fraud, including surprise, trickery, or cunning and unfair ways used to commit fraud. The only limitation in defining fraud is things that limit human dishonesty.

Fraud is an intentional and deceptive act carried out to obtain an unlawful advantage or to harm another person. Fraudulent Action Tendency is the potential or possibility of a person to commit dishonest acts, violate rules, or abuse the trust given to him for personal or group gain. This action involves breaking the law, cheating, manipulating information, embezzlement and forgery. Fraud can be committed by one or more people inside or outside the organization, and has an impact on financial loss or reputational damage to the person or organization that is the victim (Mahsun, 2023). According to ACFE there are 3 types of Fraud, namely asset misappropriation, corruption, and financial

statement fraud.

HYPOTHESES DEVELOPMENT

Whistleblowing System and Fraudulent Action Tendency

Whistleblowing system is a mechanism implemented in an entity or organization that allows employees or members of the organization to report illegal, unethical, or unlawful activities that occur within the organization without fear of negative retaliation (Kerap, 2018). The Whistleblowing System generally concerns certain frauds that are detrimental to both the company itself and other parties, and which if exposed will indeed have a detrimental impact on the company, at least damaging the company's good name (Kerap, 2018). The whistleblowing system can be divided into two, namely Internal Whistleblowing and External Whistleblowing. The whistleblower reporting system is a mechanism where employees or external parties who have information about cases of fraud or violations of organizational ethics can report them anonymously or openly without fear of retaliation from the reported party (Mahsun, 2023).

Fraud occurs due to weak control systems within the company. In addition to being used to report fraud, the Whistleblowing System can also be a form of supervision to discourage individuals who intend to commit unethical acts or behavior. Individuals will monitor each other's actions, making individuals reluctant to commit fraud because they are more likely to be reported. The whistleblowing system is a way to supervise agents so that they do not commit fraud. Based on the results of research from (Putri et al., 2022; Triantoro et al., 2020; Wijayanti et al., 2024) shows that the whistleblowing system can reduce a person's intention to commit fraud. Based on these findings, the following hypothesis is proposed.

H1: The whistleblowing system has a negative effect on the tendency for fraudulent acts

Compensation suitability and Fraudulent Action Tendency

Compensation suitability is the reward given by the organization to employees, which can be financial or non-financial in a fixed period (Ayuni, 2022). Compensation suitability is a sense of satisfaction with the results given by the company to its employees or rewards that are in

accordance with the work done, either in the form of salary or wages. Compensation given to agents in cash, shares, options, and other components of salary (Scott, 2015).

Several studies have examined the effect of Compensation Suitability on Fraud Tendency (Ayuni, 2022; Azmi et al., 2021; Khasanah & Lastanti, 2022; Lux et al., 2022; Pramesti & Wulanditya, 2021). The results of this study show different evidence, in research from (Ayuni, 2022; Azmi et al., 2021; Khasanah & Lastanti, 2022) shows that compensation suitability has a negative effect on fraudulent tendencies. Meanwhile, research from (Lux et al., 2022; Pramesti & Wulanditya, 2021) shows that compensation suitability has no effect on Fraud Tendency. In agency theory, one form of controlling agents is through a compensation system to agents. With a salary system using stock certificates, employees feel that they own the company so that the intention to commit fraud can be minimized. High compensation suitability, managers feel more appreciated and fair, so they have the initiative to commit fraud. Based on these findings, the following hypothesis is proposed.

H2: Compensation suitability has a negative effect on the tendency for fraudulent acts

Competence and and Fraudulent Action Tendency

Competence is a combination of knowledge, skills, attitudes, and abilities needed to carry out a task or job effectively. Competence in an organizational context typically includes technical skills, procedural understanding, and the capacity to make ethical decisions (Merzouki et al., 2019). Good competence allows individuals to complete work correctly and in accordance with the rules, and understand the ethical implications of their actions (Reineholm et al., 2024). Competence refers to the knowledge, skills, and abilities possessed by an individual to carry out their duties or responsibilities. Individuals who have high competence tend to have an understanding of regulations, ethics and the impact of their actions.

In agency theory, management as an agent is expected to have adequate competence to run the company in accordance with the objectives of the capital owner. Management competence includes technical skills, market understanding, and expertise in making the right decisions. Competent managers will be better able to achieve company goals without taking excessive risks or making decisions that are detrimental to capital owners. The better the individual's competence, the

lower the tendency to commit fraud because they can consider the risks and impacts. Based on previous research, there are differences in findings regarding the effect of competence on the tendency to commit fraud. Several studies, such as those conducted by (Avortri & Agbanyo, 2021; Demetriades & Owusu-Agyei, 2022; Hidajat, 2020; Omukaga, 2020; Sahla & Ardianto, 2023; Utami et al., 2019) show that a person's competence has a significant effect on fraudulent actions. However, other studies, such as (Alfarago et al., 2023; Vousinas, 2019) show that competence does not have a significant effect on fraud, indicating that there are other factors that may be more dominant. This difference in findings is the basis for developing the hypothesis that a person's competence has a significant effect on the tendency to commit fraud.

H3: Competence has a negative effect on the tendency for fraudulent acts

Ethical Values, Whistleblowing System and Fraudulent Action Tendency

Ethical values function as a moral control mechanism that encourages agents to uphold integrity, honesty, and transparency (Said et al., 2017). With ethical values, agents will have the awareness to act in accordance with the interests of the principal and distance themselves from unethical behavior. Meanwhile, the whistleblowing system acts as a formal oversight mechanism that provides a safe path for related parties, such as employees or the public, to report acts of deviation or fraud committed by agents. The integration of ethical values and the whistleblowing system creates a strong synergy, where ethical values play a role in moral prevention and the whistleblowing system functions as a formal detection tool (Suh et al., 2018). Ethical values in a company affect how much impact the whistleblowing system has. High ethical values in the company create a culture of honesty and transparency, so that employees are more active in reporting fraudulent acts without fear of negative retaliation, thereby reducing fraudulent acts. The application of high ethical values in an organization has an effect on the whistleblowing system in reducing fraudulent acts compared to low ethical values.

Ethical values are needed to prevent accounting fraud (Fernandhytia & Muslichah, 2020). They further stated that to avoid potential conflicts of interest, ethical guidelines must underlie the behavior of accountants in carrying out the tasks assigned to them. Even when faced with a weak control system, it can prevent fraudulent acts. Research according to (Said et al., 2017) proves that ethical values have a negative effect on fraud committed

by bank employees in Malaysia. Based on this potential, a hypothesis is proposed which states that:

H4: Ethical values strengthen the whistleblowing system's influence on the tendency for fraudulent acts

Ethical Values, Compensation Suitability and Fraudulent Action Tendency

Compensation suitability is considered as a mechanism to align the interests of agents and principals. Ethical values influence individual behavior in moral decision making (Wulandhari et al., 2023). Ethical values act as self-regulation, where agents internally control their behavior to remain in accordance with the interests of the principal, thereby preventing abuse of authority (Fernandhytia & Muslichah, 2020). On the other hand, compensation suitability plays an important role in reducing fraud by providing fair and balanced incentives to agents. Appropriate compensation can align the interests of agents with the interests of the principal, so that agents are motivated to work optimally and responsibly (Aprillia et al., 2022). The integration of ethical values and compensation suitability creates an effective mechanism in minimizing the tendency to commit fraud. Ethical values function as an internal mechanism that forms the moral awareness of agents, while compensation suitability becomes an external mechanism that provides positive incentives for agents to act in accordance with the goals of the principal. Individuals who have high ethical values tend to have higher moral standards and are less likely to commit fraud.

Ethical values can mitigate someone from committing fraud. Employees have appropriate compensation and low ethics prevent employees from committing fraud. In individuals with high ethical values and low compensation suitability will be more effective in reducing the tendency to commit fraud compared to low ethical values. Research from (Suh et al., 2018) which states that ethical values can prevent and reduce fraud and malpractice, we place ethical values as a moderator of the relationship between opportunities and tendencies to commit fraud. Ethical values are a limitation for employees in committing fraud. Based on this potential, a hypothesis is proposed which states that:

Ethical Values, Compensation suitability and Fraudulent Action Tendency

H5: Ethical values strengthen the compensation of suitability influence on the tendency for fraudulent acts

Ethical Values, Competence and and Fraudulent Action Tendency

Competence is a person's ability, knowledge and skills in carrying out their duties and responsibilities. Individuals with high competence tend to have a better understanding of ethics, regulations and the impact of their actions (Reineholm et al., 2024). With good competence, it becomes something that principals pay attention to when recruiting agents. Lack of competence can cause agents to make wrong decisions or take shortcuts through fraudulent actions to cover up their incompetence (Indrapraja et al., 2021). In agency theory, ethical values act as an internal mechanism that reduces moral hazard because agents have the awareness to act in accordance with the goals expected by the principal, not just pursuing personal gain. Ethical values create "self-regulation" that directs agent behavior to be more transparent and accountable (Nwanyanwu, 2018). Ethical values form a moral foundation that encourages agents to act correctly, while competence ensures that agents have the technical ability to achieve goals without having to cheat.

Individual ethical values will strengthen the negative relationship between competence and the tendency to commit fraud. Individuals with high ethical values will show a stronger relationship compared to individuals with low ethical values. With an ethical culture from a company that contains ethical values, it can be used as an anti-fraud strategy against fraud that occurs in banking (Suh et al., 2018). Furthermore, other researchers state that ethics are an effective first line of defense in reducing employee malpractice in an organization (Giles, 2015). With good ethical values, employees can maintain their desire to commit fraud with the competence they have. Based on this, the following hypothesis is proposed:

H6: Ethical values strengthen competence influence on the tendency for fraudulent acts

RESEARCH METHOD

This study uses a quantitative method using an associative approach (cause and effect). The variables in this study will test 3 independent variables, 1 dependent variable, and 1 moderating variable. The variables to be studied in this study are the Whistleblowing System, Compensation Suitability,

Competence, Fraudulent Tendency, and Ethical Values. The population in this study were employees in the Financial and Banking Industry in Indonesia. To calculate the number of research samples using the inverse square root method, which considers profitability that the ratio of the path coefficient and its standard error will be greater than the value of the test statistic for a certain level of significance (Hair et al., 2021). In this study, a significance level of 5% was used and a minimum path coefficient of 0.2. Based on the results of the calculation, the minimum number of samples in this study was 202 respondents.

The type of data used in this study is primary data. Data collection using a research questionnaire in the form of google from using a Likert scale of 1-5, namely (STS-SS). The collection method uses a non-probability sample, namely Snowball Sampling (Creswell, 2018). This process continues, like a snowball that gets bigger, until the desired number of samples is reached. This study uses the Partial Least Squares Structural Equation Modeling (PLS-SEM) Method using SmartPLS 4 Software. There are two stages in testing using PLS-SEM, namely the Measurement Model (Outer Model) and the Structural Model (inner model).

RESULTS AND DISCUSSION

Results

Data Overview

This study is a survey of employees in the Financial and Banking Industry in Indonesia. The survey was conducted using Google from November-December 2024. The number of respondents in this survey was 202 spread across almost all regions in Indonesia. The following are the characteristics of respondents categorized by gender, education, and work experience.

Description	Total	%
Gender		
Male	130	64,36
Female	72	35,64
Total	202	100
Education		
S3	1	0,50
S2	2	0,99
S1/DIV	181	89,60

Table 1. (continued)

Description	Total	%
DI-III	14	6,93
SMA-Sederajat	4	1,98
Total	202	100
Work Experience		
<1 Years	8	3,96
1-3 Years	120	59,41
>3 Years	74	36,63
Total	202	100

The majority of respondents were male, which was 64.36%, much more than female respondents. The highest level of education was S1/DIV, which participated in this study with a percentage of 89.6%. Based on work experience, the longest work period was in the range of 1-3 years, which was 59.41%, followed by more than three years at 36.63% and the rest at 3.96% for work experience of less than one year.

Validity and Reliability test

Testing the validity of the Whistleblowing System variable, indicator WS3 was eliminated because the outer loading value of 0.427 did not meet the standard. Indicators WS1 and WS4 were maintained even though their values were close to the minimum limit (0.501 and 0.502 respectively in the final model). Other indicators, such as WS2, WS5, WS6, WS7, and WS8, showed good validity with outer loading values above 0.5. For the Compensation Suitability variable, indicators CS1 and CS4 were eliminated because the outer loading values of 0.325 and 0.471 were invalid. Other indicators, such as CS2, CS3, CS5, CS6, CS7, and CS8, met the validity standards with outer loading values ranging from 0.611 to 0.881 in the final model. In the Competence variable, three indicators were eliminated because the outer loading value was below 0.5, namely CMP1 (0.186), CMP2 (0.323), and CMP8 (0.261). The remaining indicators, such as CMP3, CMP4, CMP5, CMP6, and CMP7, showed good validity with outer loading values above 0.5 in the final model.

The Fraudulent Action Tendency variable maintains all indicators in the final model, with outer loading values ranging from 0.682 to 0.894. This indicates that all indicators are valid in measuring this construct. In the Ethical Value variable, all indicators have outer loading values above 0.5 in

the initial and final models, with the highest value achieved by EV8 (0.949). This indicates very good convergent validity for all indicators in this variable. Based on the Heterotrait-Monotrait Ratio (HTMT) analysis, all values are below the limit value of 0.85, so it can be concluded that the discriminant validity is very good and adequate. Based on the AVE test, all variables have met the criteria above 0.5.

The reliability test results for the whistleblowing system variable have a cronbach's alpha value of 0.863 and a composite reliability of 0.922, indicating very good internal consistency. The Compensation Suitability variable also has high reliability with a cronbach's alpha value of 0.848 and a composite reliability of 0.895. Furthermore, the competence variable shows very strong consistency between indicators, with a cronbach's alpha value of 0.875 and a composite reliability of 0.974. The fraudulent tendency variable shows very high reliability, with a cronbach's alpha value of 0.929 and a composite reliability of 0.933. Finally, the ethical value variable has very strong internal consistency with a cronbach's alpha value of 0.935 and a composite reliability of 0.974. Thus, all variables meet the criteria for adequate reliability.

Hypothesis test

Hypothesis testing in this study uses path coefficients using Smart-PLS Software 4.

Table 2. below shows the test results.

Hypothesis	Koefisien	T statistics	P values	Result
WS -> FT	-0,246	2,174	0,015	H1 supported
CS-> FT	-0,123	1,797	0,036	H2 supported
CMP -> FT	0,047	0,477	0,317	H3 not supported
EV x WB -> FT	-0,652	3,965	0,000	H4 not supported
EV x CS -> FT	0,466	3,196	0,001	H5 supported
EV x CMP -> FT	0,255	2,769	0,003	H6 supported

Source: Processed data, 2024

Description: Whistleblowing System (WS), Compensation Suitability (CS), Competence (CMP), Fraudulent Tendency (FT), and Ethical Values (EV)

Based on figure 1, the results of the analysis show that the first hypothesis (H1) is supported because the p-value of the Whistleblowing System (WS) variable is 0.015, smaller than the significance

threshold of 0.05. This shows that WS has a significant influence on FT, with a negative coefficient value (-0.246). This means that the implementation of the Whistleblowing System is related to the Tendency of Fraudulent Actions, which indicates that the better the whistleblowing system, the lower the Fraudulent Actions in the company.

Furthermore, the second hypothesis (H2) is also supported because the p-value of the Compensation Suitability (CS) variable is 0.036, which is also smaller than 0.05. This shows that Compensation Suitability has a significant effect on the Tendency of Fraudulent Actions, with a coefficient of -0.123. This relationship shows that compensation suitability has an impact on the tendency of Fraudulent Actions, the more appropriate employee compensation is, the less unethical behavior will be.

On the other hand, the third hypothesis (H3) is not supported because the p-value of the Competence variable (CMP) is 0.317, which is greater than 0.05. This indicates that CMP does not have a significant effect on FT, with a small positive effect coefficient (0.047). Thus, competence is not strong enough to directly influence the FT variable in this study, perhaps because other factors mediate or moderate the relationship.

Furthermore, the moderating role of Ethical Values provides more complex results. Moderation of Ethical Values weakens the relationship between Whistleblowing System and Fraudulent Tendency, with a negative coefficient of -0.652 ($p = 0.000$). Conversely, moderation of Ethical Values strengthens the relationship between Compensation Suitability and Fraudulent Tendency (coefficient 0.466, $p = 0.001$), and between Competence and Fraudulent Tendency (coefficient 0.263, $p = 0.003$). This means that in situations with high Ethical Values, the effects of Compensation Suitability and Competence on Fraudulent Tendency are significant and positive, while the effects of Whistleblowing System on Fraudulent Tendency are negative.

Discussion

First, the Whistleblowing System has a significant effect on the tendency to Commit fraud. These results indicate that the implementation of an effective whistleblowing system can reduce the tendency to commit fraud. H1 is supported with a negative coefficient value (-0.265), this finding provides evidence that a well-functioning whistleblowing system can create a more

transparent and accountable climate in the workplace, which in turn reduces the incentive for employees to commit fraud. The findings indicate that the whistleblowing system may not yet be effective within the company. Therefore, it needs to be strengthened to more optimally prevent fraudulent activities. The effectiveness of the Whistleblowing System lies in several main factors, such as the reporter's trust in the confidentiality of the system, the existence of adequate legal protection, and a quick and firm response to reports submitted (Wijayanti et al., 2024). When individuals feel that this system is reliable, they tend to be more proactive in reporting unethical actions. This in turn creates a deterrent effect on fraudsters, who realize that their actions are at risk of being detected and reported.

The whistleblowing system is part of internal control to strengthen fraud prevention mechanisms. With this combination, organizations can not only detect fraud earlier but also create a better ethical culture (Triantoro et al., 2020). This is in line with agency theory where effective supervision is needed to prevent unethical agent behavior. In this context, the Whistleblowing system not only functions as a detection tool, but also as a tool to build public trust and improve the organization's reputation. This finding is in line with research from (Triantoro et al., 2020; Wijayanti et al., 2024; Yasa et al., 2022) which shows that a good reporting system can prevent unethical actions in the organization.

Second, Compensation Suitability was also found to have a significant effect on Fraudulent Tendency, with a negative coefficient value (-0.164) indicating (H2 is supported). The finding that compensation suitability significantly reduces the tendency to commit fraud shows the importance of the role of compensation in reducing conflicts of interest between principals (owners or management) and agents (employees). The research findings reveal that, although the company has implemented efficiency policies, the adoption of an appropriate compensation system is a strategic innovation that effectively prevents fraudulent activities. In addition, a good compensation system can reduce the risk of moral hazard, which is opportunistic behavior that arises due to a lack of incentives to act ethically. By providing fair compensation, employees feel valued and have no reason to seek personal gain illegally (Wulandhari et al., 2023). This study is in line with research from (Ayuni, 2022; Azmi et al., 2021; Khasanah & Lastanti, 2022) which states that compensation suitability is related to fraudulent tendencies. This means that compensation given to employees that is in accordance with

performance and expectations can reduce employee intentions to engage in fraudulent acts.

In contrast to Whistleblowing System and Compensation Suitability, Competence did not show a significant effect on Fraudulent Tendency (H3 is not supported). This suggests that although employee competence is important in improving organizational performance, it does not directly reduce the tendency towards fraud in the context of this study. This means that even though someone has a high or low level of competence, it is not enough to determine whether they are likely to commit fraud. The results of this study are in line with research from (Alfarago et al., 2023; Vousinas, 2019) that a person's competence does not affect a person's tendency to commit fraud. One possibility is that other factors, which influence the tendency towards fraud such as personal ethics or weak supervision, may play a more dominant role, even though the individual has high competence (Peltier-Rivest, 2018).

Furthermore, the role of Ethical Values as a moderating variable provides more complex results and shows a strong interaction between Ethical Values and the factors tested. Ethical Values weaken the relationship between the Whistleblowing System and the Tendency to Commit Fraud (H4 is not supported), with a coefficient of -0.849 ($p = 0.000$). Ethical values can weaken the relationship between the whistleblowing system and the tendency to commit fraud because strong ethical values in an individual function as an effective internal control. Individuals with high ethical values tend to have a moral commitment to avoid unethical behavior, including fraud, without having to rely entirely on the existence of a whistleblowing system. In other words, although the whistleblowing system is available as a monitoring mechanism, individuals with high ethical values already have an intrinsic drive to act honestly and uphold integrity. As a result, the preventive effect of the whistleblowing system on the tendency to commit fraud is reduced because ethical values have previously acted as the main barrier to fraudulent behavior. This suggests that individuals with high ethical values are more likely to utilize the reporting system effectively, which in turn reduces their tendency to engage in fraud.

On the other hand, Ethical Values strengthen the relationship between Compensation Suitability and Competence with Fraudulent Tendency (H5 and H6 are supported), with positive coefficients of 0.583 and 0.406, indicating that in conditions of low ethical values, inappropriate compensation and lack of competence can contribute to increased fraudulent tendencies.

Ethical values can strengthen the relationship between compensation suitability and fraudulent tendencies because high ethical values increase individuals' sensitivity to moral aspects in their behavior. When the compensation received does not match the individual's contribution and expectations, high ethical values can function as a balancing factor that prevents the emergence of fraudulent tendencies. Individuals with high ethical values tend to respond to compensation dissatisfaction in a constructive manner, such as expressing complaints professionally or seeking ethical solutions, without sacrificing their integrity (Jajairam, 2018). They will maintain honest and responsible behavior, even though they feel disadvantaged, and prefer to communicate or negotiate fair compensation, rather than getting involved in unethical practices (Said et al., 2017).

The implementation of robust ethical values within a company not only creates a transparent and fair work environment but also reinforces the benefits of an appropriate compensation system and employee competencies, thereby enhancing overall organizational effectiveness. Consequently, applying ethical values in the company is essential. In the context of competence, individuals who are competent but have low ethical values may use their abilities to manipulate the system or exploit organizational weaknesses for personal gain. However, when ethical values are high, competence tends to be directed toward supporting ethical and professional behavior. Thus, ethical values act as a filter that directs individuals to use competence and assess compensation appropriateness fairly, thereby strengthening the relationship in reducing the likelihood of fraud. In an environment with high ethical values, the positive impact of compensation and competence

appropriateness becomes more significant because it is supported by a solid moral foundation.

CONCLUSION

Fraud is a danger that lurks in the business world and entities. Fraud is still a major problem for every business. This study reveals that the whistleblowing system and compensation suitability have a significant effect on reducing the Tendency of Fraudulent Actions. An effective whistleblowing system is able to create a transparent and accountable work environment, while fair compensation suitability reduces the motivation to behave fraudulently. Therefore, an effective whistleblowing system and the provision of appropriate compensation are needed to prevent fraudulent activities. On the other hand, competence does not directly affect the tendency of fraudulent actions, indicating that competence alone is not enough to prevent fraud without being supported by other factors such as supervision and ethical values. Ethical Values as a moderating variable show a weakening of the relationship between the Whistleblowing System and the Tendency of Fraudulent Actions, in contrast to the relationship between ethical values and compensation suitability/ competence strengthening the relationship with the tendency of fraudulent actions. Moreover, the implementation of ethical values is equally important in preventing fraudulent activities. Therefore, strong ethical values in organizational culture are an essential element to mitigate the risk of fraud.

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