

Analysis of Moral Reasoning in Fraud Prevention And Ethical Culture As Moderation Variables

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Abstract. The purpose of this research is to find empirical evidence of the effect of moral reasoning on preventing fraud with ethical culture as a moderating variable. The research method used is descriptive verification method with the population in this study namely leaders, managers and employees of State-Owned Enterprises (BUMN) in the city of Bandung using saturated sampling. The data used in this study are primary data by distributing questionnaires to 30 respondents, by testing the hypothesis of SPSS version 20 regression analysis. The results show that moral reasoning has a significant effect on preventing fraud and organizational ethical culture is unable to moderate the effect of moral reasoning on preventing fraud. This is because moral reasoning is a behavior that lies within a person so that it is difficult to be controlled by others. Each individual has their own view of what is the right thing. While ethical culture is a culture that is created and developed by outsiders such as organizations that are in the work environment. These two things are different, thus making the ethical culture of the organization unable to be a moderator for the relationship.

1. Introduction

Fraud is actions that are carried out intentionally for a certain purpose (manipulation or giving false reports to other parties), carried out by people from within or outside the organization to gain personal or group benefits that directly or indirectly harm other parties [1]. There is a feeling of dissatisfaction and disappointment in an employee with the results obtained and the opportunity that results in fraudulent actions [2] Currently, fraud that occurs in companies, both in the private and government sectors, still occurs frequently and is difficult to overcome. One of the efforts to stop the emergence of fraudulent actions is by preventing fraud. Fraud prevention is all efforts made to deter potential perpetrators, narrow the space for activities that are at risk of movement and identify activities that are at risk of fraud [3]. Fraud prevention is a preventive effort that is carried out intensively and integrated with the aim of fending off and minimizing factors that can lead to fraud. [4] suggests that there are several governance measures to prevent fraud, one of which is the level of moral reasoning. Moral reasoning is a behavior or attitude in which a person does something that leads to positive or good things based on sincerity without asking for anything in return (no strings attached). The high level of morals possessed by a person will enable that person to always do the right and good things which are in accordance with the norms and rules around him. The phenomenon of fraud caused by a moral crisis is the lack of honesty of the state apparatus which causes corruption. Corruption practices that occur in regional heads continue to increase even though all prevention efforts continue to be made. According to Abdul Fickar Hadjar, a legal expert at Trisakti University in Jakarta, the moral and

ethical crisis is the main reason why corruption continues to occur. Most of them are related to the handling of infrastructure projects in the regions they lead. Most of these crimes are caused by a conducive environment, so that regional heads are free to carry out dirty practices. Another factor that influences fraud prevention is ethical culture. Ethical culture is a system of values, norms and beliefs that are basically owned by each individual in an organization [5]. An ethical culture can then influence the way of work and behavior of members of the organization in order to create ethical behavior. Through an ethical culture, it is hoped that it can counteract actions that can trigger losses for the organization and no less important is efforts to prevent employees from committing fraud. This is in line with [6] in his book that forensic fraud actually fraud can be prevented through the creation of an ethical or honest culture/culture, openness and elimination of opportunities for fraud to arise.

Based on research conducted by [7] an auditor who has high moral reasoning will be more precise in making decisions on the red flags found, thus minimizing the existence of fraud. In contrast to research conducted by [8], people with low morality tend to make decisions in their own interests. Further research conducted [9] [10] shows that creating a good organizational ethical culture can prevent or reduce the risk of fraud in the organization. Furthermore, other studies conducted by [11] [12] show that organizational ethical culture has a negative effect against the tendency of fraud in the government environment. The difference from previous researchers in this study is that ethical culture is used as a moderating variable and the authors examine the fraud prevention variable where in previous research fraud prevention is more about fraud detection.

Based on the background description above and the results of previous research, the purpose of this study was to obtain empirical evidence regarding the effect of moral reasoning on preventing fraud and empirical evidence that ethical culture strengthens or weakens moral reasoning on fraud prevention.

This research is classified as associative research (relationship), namely research that aims to determine the relationship of variables or more [13], to find out how the influence of moral reasoning in preventing fraud and how the influence of ethical culture can strengthen or weaken moral reasoning in relationships fraud prevention.

2. Method

The research method used is verification which examines moral reasoning in preventing fraud with ethical culture as a moderating variable. In addition, this research is explanatory in nature where this research is research conducted on two to more constructs that are used based on hypotheses and theories for testing a phenomenon [14].

The population in this study is 30 respondents in the Planning & Controlling Division and General Support Division at Telkom CorpU which are located at Jalan Gegerkalong Hilir, Sukarasa, Kec. Sukasari, City of Bandung. The sample used is a saturated sample (same population as the sample), namely 30 people. The data source in this study is primary data, where this data is obtained directly by providing a list of questions using a questionnaire which is then distributed to respondents. The collection technique is a survey technique from questionnaires that are distributed related to the problem under study. The time of the research was conducted from September 2022 to December 2022. Furthermore, the analytical method used in this study was moderated regression analysis. This MRA was chosen because it obtained a comprehensive picture of the relationship between the independent variables and the dependent variable moderated by a moderating variable [15]. The measurement scale in this study uses a Likert scale where this scale aims to measure opinions, attitudes and perceptions of each individual to groups related to social phenomena [16].

3. Results and Discussion

3.1 Research Results

The characteristics of respondents according to gender were used to see how much the number and percentage of men and women filled out the questionnaire, and it can be seen that there were more male respondents, namely 17 people or 56.7%. While respondents with female gender were 13 people or 43.3%. Respondents with ages from 20 - 35 years, namely 8 people or 27%. While respondents aged more than 36-45 years, namely 10 people or 33%, respondents aged over 46 years, namely as many as 12 people or 40%. The last education level of respondents with a Masters degree was 2 people or 7%, 10 people or 33% had an Bachelors degree, 10 respondents or 33% had a D3 degree, and 8 respondents or 27% had a high school education. Respondents with a length of work of 6-10 years, namely 12 people or 40%. Meanwhile, respondents who have worked for more than 10 years are 18 people or 60%. The length of service criterion can explain how long the respondent has held a position and has devoted himself, and can also show the experience he has had.

The score of morality is in the very good category, which means that employees have very high morality. Fraud has a low category score, meaning that the employee's desire to commit fraud is low. And finally the ethical culture of the organization has a score of including in the good category, meaning that BUMN companies already have an ethical organizational culture. Furthermore, the validity and reliability tests of all questions in this study have been said to be valid and reliable so that they can be used for further testing. The classical assumption test aims to find out whether the data used is normally distributed, there is a correlation between the independent (independent) variables, and whether there is a similarity or not for the variance from one residual observation to another observation, and to find out whether the dependent variable is correlated with itself. . All data used in this study have fulfilled the classical assumption test so that it can be continued for testing simple linear regression and moderation regression.

Table 1.Results of Regression Analysis of Moral Reasoning on Fraud Prevention

Variable	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.135	3.303		.647	.000
Moral Reasoning	.305	.114	.430	2.678	.016

R² = 0.457

Adj R² = 20.9

Based on the table above, it can be seen that the R-square value for the moral reasoning variable on fraud prevention is 0.457 indicating that it has an effect of $0.457 \times 100\% = 45.7\%$. The significance value for the individual morality variable is 0.016 which is less than the significance level of 0.05, so it can be concluded that the hypothesis is accepted or the individual morality variable has a significant effect on fraud prevention.

Table 2.Moderation Regression Test Results

Variable	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	32.772	6.450		5.074	.000
Moral Reasoning	.207	.067	.435	.796	.026
Moral Reasoning_ Ethical Culture	-.153	.120	-.253	-2.144	.612

$$\begin{aligned} R^2 &= 0.476 \\ \text{Adj } R^2 &= 0.227 \end{aligned}$$

Based on the table above, it can be seen that the R-square value for the variable moral reasoning moderated by ethical culture has an effect of 0.476 or has an effect of $0.476 \times 100\% = 47.6\%$. The significance value for the organizational ethical culture variable in moderating is 0.612 greater than 0.05, so it can be concluded that the hypothesis is rejected or the organizational ethical culture variable does not influence the relationship between individual morality and fraud, meaning that organizational ethical culture variables are not able to moderate the influence of individual morality on fraud prevention.

3.2 Discussion

Based on the results of the analysis of the effect of individual morality on fraud prevention with a significance value of <0.05 indicating that H_0 is accepted and H_a is rejected, this means that individual morality has a significant effect on fraud prevention. Moral reasoning is an attitude or action that shows why it is considered right and why it is considered wrong. Moral reasoning encourages to present reasons for following or against moral beliefs in order to be able to say the right or wrong things. Therefore, individual morality can influence fraud prevention [17]. This research is in line with research conducted by [18] have conclusions which show that individual morality has a significant effect on the occurrence of fraud.

Based on the results of the analysis of the effect of moral reasoning on preventing fraud moderated by ethical culture, a significance value of 0.612 was obtained with a value > 0.05 indicating that H_0 was rejected and H_a was accepted, this means that the ethical culture of the organization is not able to moderate the effect of moral reasoning on fraud prevention. This is because individual morality is a behavior that lies within a person so that it is difficult to be controlled by others. Each individual has their own view of what is the right thing. [19]. Meanwhile, organizational ethical culture is a culture that is created and developed by external parties such as organizations that are in the work environment. [20] These two things are different, thus making the ethical culture of the organization unable to be a moderator for the relationship.

4. Conclusion

Individual morality has a significant effect on preventing fraud. This means that the higher the level of one's moral reasoning, the more likely it is to do good or right things, and vice versa. Meanwhile, ethical culture does not moderate the effect of moral reasoning in preventing fraud. This means that the better or worse the ethical culture in an organization is unable to moderate the effect of moral reasoning on fraud prevention.

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