A Case of High Power Distance: Sycophantic Adherence in Fraudulent Malfeasance and its Critical Implications for Auditor Oversight

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Abstract

The objective of this study is to observe the dynamics of romantic relationships between leaders and subordinates in the context of committing fraud. We conducted semi-structured interviews with participants from the upper echelons of Indonesia's local government. These individuals were chosen due to their roles in overseeing the organization's financial resources. Our findings indicate that obedience to authority serves as an alternative explanation for fraudulent activities. Subordinates frequently justify their fraudulent actions as part of their organizational duties. The presence of romantic relationships between leaders and subordinates facilitates manipulative activities and makes fraudulent behavior more feasible. Consequently, when such romantic relationships are present, collusive fraud is more likely to occur. Our research extends beyond traditional frameworks like the fraud triangle, fraud diamond, and fraud pentagon. Therefore, we offer recommendations for organizations to develop alternative strategies for fraud mitigation.

Keywords: Obedience to authority, Fraud Triangle, Romantic Relationships, Corrupt Leader, Subordinates.

JEL: M41, M42, M48

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Introduction

Several scholars argue that local government is more susceptible to exploitation by organized criminal groups compared to the private sector[2] (López-valcárcel et al. 2017; D'Andreamatteo et al., 2022; Bodó and Janssen, 2022). The Association of Certified Fraud Examiners (ACFE) (2022) describes organized criminal groups as involving the collusion of two or more individuals, a factor that significantly contributes to the complexity and impact of fraudulent activities. According to the ACFE (2022), such collusion is a critical component of sophisticated fraudulent networks that inflict substantial financial losses on organizations. Research by Free and Murphy (2015) delves into the phenomenon of co-offending in fraud, noting that while much attention has been given to organizational fraud, the specific role of co-offending, especially within the public sector, has been relatively underexplored.

The characteristics of fraud in private and public sectors cannot be generalized. We need a clear study that discusses why people, including honest people, engage in fraudulent behaviors (Kaur et al., 2023; Agyemang et al., 2022). This inquiry is crucial for understanding the various factors that drive individuals to commit fraud. The debate should not focus solely on the inherent opportunities within organizations. Opportunities alone do not explain fraudulent behavior. The modus operandi is not always attributed to these opportunities (Free and Murphy, 2015; Maas and Yin, 2022). Such a concept of opportunity for fraud is too narrow. It overlooks the broader organizational and social contexts that influence fraudulent behavior. A more holistic approach is needed. This approach should consider both individual and systemic factors. According to Free and Murphy (2015), there are other underlying factors at play that can be complex and multifaceted. As such, it leaves fraud in local government 'clouded and shallow', and it cannot be solved by a framework focused only on individual psychology (Free and Murphy, 2015).

Yes, it cannot be denied that many prior studies have discussed the causes of fraud, exploring whether they are attributed to the failure of internal control (Bali, 2018), organizational culture (Kyarimpa and Garcia-Zamor, 2010), lower firm performance (Dimakou, 2015; Hanousek and Kochanova, 2016), or the lack of institutional independence among elite bureaucrats (Brandt and Svendsen, 2013). These studies provide valuable insights into the factors that can contribute to fraudulent behavior. However, when we examine bureaucratic fraud in Indonesian local governments, we find that the causes extend beyond these factors. The complexity of fraud in this context suggests that other influences, perhaps more nuanced, are at play. These influences may include local political dynamics, socio-economic conditions, and specific cultural factors unique to Indonesia (Pertiwi and Ainsworth, 2021).

Anand et al. (2015) call for research exploring the relationship between fraudulent leadership and crimes of obedience. This exploration is expected to offer different theoretical views on the causes of fraud (Anand et al., 2015). Additionally, recent studies on fraud causation (Hassan et al., 2022; Guo et al., 2022) highlight that the dynamics of relationships between a leader and their followers in the context of co-offending in fraud are not adequately observed. Prior studies have primarily focused on the individualized aspects of fraud (e.g., Suh et al., 2018; Lokanan, 2018; Belle and Cantarelli, 2017; Schuchter and Levi, 2015; Soltani, 2014; Morales et al., 2014). These studies do not delve into the underlying beliefs about how leaders and followers

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[2] This statement is based on prior research in the public sector, particularly focusing on local governments, which examines cases of fraud and corruption. A significant body of work has been dedicated to uncovering unethical practices within this sector. In contrast, research on fraud in private sector environments is less prevalent. When studies do explore private sector fraud, they often rely on proxies in financial reports as predictors to explain unethical behavior. Anand et al. (2015) provide a comprehensive understanding of what fraud looks like, highlighting the mechanisms and motivations behind such behavior.

collaborate to commit fraud. Hassan et al. (2022), in their systematic literature review, emphasize the need to examine these relational dynamics to gain a more comprehensive understanding of fraud causation.

To address these gaps, our study focuses on exploring fraud causation within the context of the Indonesian local government. The rationale is due to Indonesia's governmental structure, known for its high power distance (Mietzner, 2015), which suggests significant authority differentials that influence behaviors related to fraud. Our study is beyond the conventional factors typically examined in fraud causation studies, such as internal controls and financial needs. This study aims to fill the gaps above by conducting a comprehensive examination of the specific factors and dynamics at play within the Indonesian local government that contribute to fraudulent activities. By doing so, we seek to provide a more nuanced understanding of how and why fraud occurs in this particular institutional context. Additionally, the current study aims to validate and expand upon findings put forward by earlier research.

Our study employs an in-depth interview approach that contributes significantly to scholarly discourse on dispositional variables in fraud commission. These variables are posited to have direct effects on fraudulent occurrences, a perspective exemplified by Craig and Piquero (2016), who analyze white-collar offenses like embezzlement through the lens of offender personality traits. Their study suggests that individuals with 'low self-control' are more predisposed to committing fraud. We perceive that it is too early to conclude that such personality flaws have a direct effect of predicting fraudulent behaviors (Maulidi, 2020). Our idea aligns with the theory of planned behavior, which posits that personality traits impact behaviors indirectly by influencing factors closely associated with the behavior in question (Ajzen, 1991, p. 181). By situating our findings within the broader theoretical frameworks of fraudulent leadership and crimes of obedience, we aim to provide nuanced insights. These insights not only deepen our understanding of fraud mechanisms but also offer practical implications for policy development and future research, aimed at effectively combating fraudulent activities within organizational contexts.

Prior studies and theoretical framework

The original concept of Obedience to Authority (OTA)

Obedience to Authority (OTA) is a concept of social influence where an individual acts in response to a direct order from another individual, who is usually an authority figure. Initially, the experiments on OTA were performed by Stanley Milgram through a series of social psychology experiments in 1974. He acknowledges that his experimental studies were carried out and completed while he was in the Department of Psychology at Yale University. Milgram's study aimed to observe the willingness of individuals to obey the commands of people who possess authority or power. More specifically, his interest was to measure the psychological reactions of individuals when they were commanded to behave in specific ways, requiring them to inflict what seemed to be destructive effects on others. In relation to Milgram's experiments, some authors note that they are influential works that can stimulate insights into social science to understand why some individuals' behaviors are the product of the social situation (Miller, 1986; Russell, 2011).

Milgram (1974, p. 1) defines OTA as the psychological process that links and binds individual action to political purposes, executed in the name of authority. This definition emphasizes the psychological force driving a set of individual behaviors, which are aligned with the desires and expectations of a person in legitimate authority. Milgram (1974) notes that this psychological force is attributed to the inherent power within an individual. In the context of

this psychological phenomenon, 'power' is characterized by its relational nature, causality, and the probability of achieving desired outcomes (Kelvin, 1970). Whether backed by organizational mechanisms to support enforcement or effectiveness in goal attainment, power influences individuals' behaviors through their reasoning processes. It is crucial to recognize that power is a necessary instrument for addressing social and psychological phenomena. Schein (1977, p. 65) describes power as "A's ability to modify the behavior of B in A's desired direction without altering his or her own behavior." This type of social interaction indicates that B must obey A's interests without question. According to Schein's study, the phenomenon of human obedience underpins cooperative actions, highlighting how authority and power dynamics shape individual and collective behavior.

Furthermore, Milgram's laboratory experiments demonstrate that the reactions of group members to carrying out orders can sometimes align with their personal values or standards. In certain situations, individuals interpret themselves as instruments for fulfilling another's desires. Consequently, from subordinates' viewpoints, they find it challenging to deviate from their superiors' expectations, as they are under significant pressure to comply. Aligning with other studies, personal power is viewed as a means of controlling individuals (Kaposi, 2022). This control is exerted through the psychological pressure that authority figures impose on subordinates, compelling them to act in ways that might not align with their personal inclinations. It can be argued, Milgram's findings emphasise the complexity of obedience and the powerful influence of authority on individual actions, revealing that obedience is not merely about following orders but also involves a deeper psychological alignment with the perceived authority's desires and commands.

Prior studies on fraud causations

In the early dialogue, we mention the term 'fraud triangle'. It is a theory of fraud causation outlining three components that contribute to increasing the risk of fraud: opportunity, incentive, and rationalization (Cressey, 1953). Cressey (1993), in his work, posits these components as universal reasons why a person may decide to commit fraud. Operationally, these components interact with one another in a way that if any element in a given situation is absent, the likelihood of fraud occurring is significantly reduced. Opportunity refers to the circumstances that allow fraud to take place, such as weak internal controls or lack of oversight. Incentive, also known as pressure, involves the personal or financial pressures that motivate an individual to commit fraud, such as debt or the desire for financial gain. Rationalization is the cognitive process that allows individuals to justify their fraudulent actions, convincing themselves that what they are doing is not wrong or is necessary under the circumstances. These components do not operate in isolation but rather in an interconnected manner, where the presence of all three creates a conducive environment for fraudulent behavior (Cressey, 1953). The theory emphasizes that mitigating any one of these elements can significantly lower the risk of fraud.

However, after reviewing Cressey's original work titled "*Other People's Money: A Study of the Social Psychology of Embezzlement*," it becomes apparent that the proposed paradigm is based on atypical cases. He selectively picks cases that rely on a common-sense point of view rather than homogeneous cases. According to Clinard and Meier (2015), Cressey tends to make a universal generalization about the reasons behind fraud occurrence. In the context of white-collar offenses, many fraud studies explicitly link fraudulent behaviors to organizational weaknesses, which are partially conceptualized as opportunities in the fraud triangle (e.g., Donelson, 2017; Liao et al., 2019). However, the works of Kagias et al. (2022) and Schuchter and Levi (2016) suggest that the three components of the fraud triangle, including

organizational control weaknesses, are interchangeable factors. They emphasize that the predictive power of these factors on individuals' willingness to commit fraud can be disrupted, particularly in an environment with a high ethical climate. In such contexts, the components of the fraud triangle are not always mandatory for fraudulent behavior to occur. This insight challenges the universality of Cressey's model and suggests that the relationship between organizational weaknesses and fraudulent behavior is more complex than initially thought, especially within cultures that do not condone corruption.

Despite its weaknesses, many scholars and professionals in accounting, auditing, and management have adopted the paradigms developed in the fraud triangle. For instance, within the accounting profession, the American Institute of Certified Public Accountants (AICPA) in 2002 and the International Federation of Accountants (IFAC) in 2006 followed the lead of the ACFE, which had previously adopted the fraud triangle as practical guidance for auditors to identify fraud. This widespread adoption highlights the practical utility of the fraud triangle despite its theoretical limitations. The framework's simplicity and applicability make it a valuable tool for practitioners aiming to understand and combat fraud in various organizational settings (Lokanan, 2018). As argued by other scholars (Soltani, 2014; Morales et al., 2014), the fraud triangle helps auditors and other professionals develop more effective anti-fraud strategies. This endorsement by prominent professional bodies underlines the enduring influence and relevance of the fraud triangle in the field of fraud prevention and detection.

Our study, however, recognizes the need to reconstruct our understanding of fraud causation. We align with Norman et al. (2010), whose research produced unconvincing results regarding auditors' understanding of fraud cues. They examined the efficacy of the fraud triangle on practical tasks involving 172 experienced internal auditors from 21 organizations. They find that its use did not significantly enhance the assessment of fraud risk at a practical level. Additionally, there is fundamental disagreement within the fraud triangle theory itself, particularly regarding the conceptualization of inherent opportunity as a precondition for fraudulent occurrences (Schuchter and Levi, 2016, 2015; Kagias et al., 2022). They argue that the fraud triangle's paradigm is limited, focusing narrowly on the individual's psychology (Maulidi and Ansell, 2021; Villaescusa and Amat, 2022). Given these limitations, we propose an alternative framework to better explain the occurrence of fraudulent behaviors within organizations. This new approach aims to address the gaps identified in the fraud triangle theory, offering a different understanding of the factors that contribute to fraud and how they interact within organizational contexts.

Theoretical framework

Mayer et al. (2012) have attempted to go beyond laboratory experiments, striving to develop an understanding of the dynamics of (un) ethical behaviors. They explore the reciprocal role of stimuli (rewards) as determinants of dishonest behavior and the psychological complexity related to honesty. They argue that internalization, in practice, is a more reliable predictor of both positive and negative behaviors, potentially influenced by anticipated outcomes. According to Mayer et al. (2012), individuals' reactions to specific situations are driven by their need for positive self-evaluation, a drive that is not directly tied to organizational actions. As explained, this internalization process is mediated by selective tendencies linked to their moral codes, which ultimately determine their actions. This is to say the importance of understanding the internal psychological processes that guide ethical and unethical behaviors, emphasizing the role of personal moral codes and the quest for positive self-evaluation in shaping individuals' actions. By considering these points, Mayer et al. (2012) contribute to an understanding of how ethical and unethical behaviors develop, suggesting that the drive for

positive self-regard and internal moral standards play a crucial role in determining individuals' responses to various situations.

The results of Mayer et al.'s (2012) study align closely with Bandura's (2012) social cognitive theory, demonstrating that people's thoughts and understandings of social phenomena are reflected in their reasoning about such phenomena. During reasoning activities, social information is often utilized to draw inferences and aid decision-making in response to social phenomena (Cai and Shi, 2022). However, when social information does not align with expectations in a given situation, human reasoning tends to favor information consistent with self-schemas (Chen et al., 2022). Bandura (2012) argues that the focus of cognitive activities plays a crucial role in determining decisive actions, such as making self-adaptations and changes in response to the social world. Therefore, it is not unusual for people to mobilize their efforts in alignment with their self-evaluation of material costs and benefits and their self-efficacy in achieving performance goals. Milgram (1974) described such interactions as consequences of overarching ideologies, highlighting how individuals' cognitive processes and self-evaluations influence their actions in social contexts.

Furthermore, Milgram (1974) argues that an authority system comprises at least two individuals who share expectations for a desirable end. He argues that the vital element in this system is an ideological justification. Despite internal interventions, an authority system within an organization can be influenced by external factors, such as political interests between the actor and the organization's business partners. As a result, obedience to the commands of those in authority often deviates from a morally responsible path. In other words, a person acting under authority might frequently change their beliefs, attitudes, actions, or perceptions to align more closely with those held by the authorities (Derfler-Rozin and Park, 2022; Lou et al., 2022). This dynamic highlights how authority can shape individual behavior, often leading to actions that are more reflective of the desires and expectations of those in power rather than the individual's own moral compass.

Additionally, Milgram (1974) contends that subordinates' encouragement of unquestioning obedience to orders leads to a willingness to comply to fulfill their duty and meet authoritative expectations. Such psychological obligations occur even when there are no monetary benefits or risks of sanctions for the subordinate or their peers (Javaid et al., 2020; Cicero, 2021). In this context, subordinates use moral justification to ensure that their decision is a permissible option, often rationalizing with statements like, "I wouldn't have done it by myself" This is a result of the submission to authority, and it does not imply that subordinates lose their moral sense (Milgram, 1974, p. 8). This notion aligns with a key aspect of Obedience to Authority (OTA) as explained by Baron et al. (2008), which is the strong tendency to obey due to a sense of responsibility. Baron et al. define "I was only carrying out orders" as a common justification after following adverse or harsh commands. They also note that an individual's status as part of a group serves as a powerful psychological drive that compels them to obey those in charge. This concept also aligns with what Tajfel (1982, 2004) describes as social identity, where being part of a group significantly influences individual behavior and decision-making, reinforcing the tendency to comply with authority figures.

Therefore, based on the reasoning mentioned above, it is possible to argue that despite OTA's role as a powerful form of social influence for positive things, it also can serve as the basis for spreading unethical behaviors within the organization. It can be done through the transfer of a legitimate mandate. In other words, a hierarchical structure within an organization provides unique psychological triggers, which influence subordinates' changes in the decision or intentional choices. Milgram (1974) notes that it is dilemmatic when personal values or standard norms do not align with those of the person prescribing behaviors. However, subordinates who

identify themselves as part of the group may see compliance as a morally obligatory response. Milgram's (1974) study suggests that the successful completion of tasks by subordinates can be interpreted as a manifestation of reciprocal effects between the self, individuals, and the organization. These reciprocal effects fundamentally underlie behavioral changes in individuals.

We expect that the psychological effects of obedience can be used as preliminary clues in understanding individuals' behavioral intentions. Particularly, the concept of obedience to authority enables us to shed more light on whether a norm for obedience is a reasonable cause of organizational fraud and, if so, how it influences the fraudulent behaviors of subordinates. This point highlights the complexity of ethical behavior in organizational settings, where the interplay of authority, group identity, and moral justification can significantly impact decision-making and actions, potentially leading to unethical outcomes despite the absence of personal gain or direct pressure.

Research Design
Main data

The informants for our study are high echelons working in the Indonesian local government, which has suffered financial losses due to corruption cases committed by the regent. Formally, the local government comprises forty-two governmental agencies under the regent's control. To focus our study, we limited our scope to strategic agencies, including those related to transportation and construction, health, regional revenue, finance and asset management service, and the regional development planning board. According to the Indonesia Corruption Eradication Commission, these agencies often receive high budget allocations and are frequent targets of corrupt individuals. Consequently, we selected high-echelon informants, including the heads of these agencies or departments, to provide insights into the dynamics of corruption within these critical sectors. This targeted approach aims to shed light on the specific vulnerabilities and systemic issues that facilitate corrupt practices in these high-stakes areas of local governance.

Before we selected potential interviewees, we mapped individuals who met our criteria. In the end, we tabulated 21 high echelons, but six persons were unwilling to participate in our project, leaving us with only fifteen interviewees. These fifteen individuals had a close relationship with the corrupt regent who is currently in jail. They had an average age of 48 years old. Another reason for choosing them was their control over the organizational budgeting and its realization. Seven of the interviewees had previously worked as heads of agencies. They are bureaucrats with 18-25 years of experience working in governmental agencies. This extensive experience and their proximity to the regent provide valuable insights into the dynamics of corruption and the decision-making processes within these critical sectors of local governance. By focusing on these individuals, our study aims to understand the factors that contribute to corrupt practices and the systemic issues that facilitate such behaviors.

Data collection and research procedure

We collected the data using semi-structured interviews. At the beginning of each interview, we requested permission to record, which was granted by all interviewees. Our discussions were lengthy and unrestricted, ranging from 90 to 120 minutes, enabling us to collect extensive data describing how the participants perceived the leader's illegal orders and why they engaged in such orders. To establish rapport with the interviewees, we informed them that they would

receive a high standard of confidentiality and anonymity. For instance, we ensured that any statements obtained during the fieldwork interviews could not be traced back to the interviewees. Additionally, we made it clear to potential interviewees that they had the right to withdraw from participating in our research at any point, including after the interview process.

The interviews followed an inverted funnel approach, starting with closed questions and gradually building to more open-ended ones. This method aimed to collect meaningful information while placing the subjects in a comfortable zone before discussing the details of the fraud cases. We encouraged dialogue during the interview process to generate answers that were spontaneous, in-depth, and unique. Our questions were structured into two levels: main themes and follow-up questions. The main themes covered the core content of the research subject, encouraging participants to speak freely about their perceptions and experiences. Every participant received both the main themes and follow-up questions. To obtain rich data, we created a relaxed environment, starting with easy questions related to corruption cases in other provinces, but still within the context of our focus. Based on the participant's spontaneous answers, we moved to follow-up questions to expand on specific points. This approach allowed us to delve deeper into the subject matter, ensuring a comprehensive understanding of the participants' insights and experiences regarding the fraud cases.

The topics discussed are highly relevant to the participants' routines in making decisions, providing insights into how they navigate the complexities of their roles. During our discussions, we explored how participants make decisions and respond to their regent's requests, particularly when these requests conflict with applicable regulations or laws. This aspect of decision-making is crucial, as it highlights the tension between adhering to legal standards and maintaining loyalty to authority figures. Participants shared various strategies they employ to manage these conflicts. What is no less important is how they translate these orders into action, often interpreting the requests in ways that align with their personal ethical standards or organizational norms. This process of interpretation and translation is critical, as it determines the extent to which they comply with or resist fraudulent directives.

Data analysis

We conducted most of the transcription for all interviews after concluding the process. Coding or categorizing the data plays a vital role in our analysis. Before starting the coding and identifying themes, we familiarized ourselves with the data. This process helps us allocate units of meaning to the descriptive or inferential information compiled during the study. Consequently, the transcripts were read several times. This step was crucial to making sense of inferential information and determining what codes, categories, or themes could be used to explain the concerned phenomena. By thoroughly immersing ourselves in the data, we ensured a deep understanding of the context and nuances, which facilitated a more accurate and insightful analysis.

Once the coding was completed for the entire dataset, we began searching for patterns within the data. We selected salient features that were meaningful in answering the research questions. During the data analysis process, we linked our findings with theoretical assumptions, keeping records of noticeable aspects that directly represented new concepts in fraud theory. We aimed to understand how various themes connected within and across specific cases, synthesizing individual themes into hierarchical ones. This involved comparing data, modifying or dropping categories, and organizing them hierarchically. To minimize self-selection biases, we sought out incongruous narratives. By the end of this stage, we had a clear idea of the patterns and relationships within the data. Our presentation was done through the theoretical lens of our

study, allowing us to explain new theoretical relationships. This approach not only enhanced our understanding of the data but also contributed to the development of new insights in fraud theory.

Research Results and Analysis

In social psychology, an intervention is one of the powerful strategies to provoke or change an individual to action (Ajzen, 2005). It can comprise a combination of information or activities that can change the existing individual's intentions. Evidence has shown that a successful intervention must be logical and compelling because individual psychology, in nature, might commonly respond to the preferable outcomes (Ajzen, 2005). It means that the favorable or unfavorable outcomes or attractive or unattractive stimulus offered in the intervention processes produce considerable effects on individual psychology. Even though an individual initially does not have any intention to perform a particular task, they can still be directed by providing favorable outcomes (Fishbein and Ajzen, 2005). Implicitly, it suggests that human behavior seems generally much more dependent on the essential elements of the key interventions which are present and much less dependent on an innate response. The following quotes show such interactions:

> "I am just doing commands from *bapak* (head of the department). It is mandatory for all staff. We have to comply with all instructions given by him. But I got a promotion for doing his commands". (*Interviewee* 2).

> "[. . .] I understand the consequences if I try to violate his trust. I can't make a decision based on my capacity, even though there is regulation ruling it. You know, we are more afraid of his orders than the governmental regulations. I will not talk about rewards. It is, of course, offered. It is just compensation." (*Interviewee* 8).

The above quotes also suggest the actual, imagined, or implied presence of others is the most decisive factor influencing people's thoughts, feelings, and behaviors to engage in such illegal acts. This aligns with the idea that the social context, including the presence of authoritative figures, significantly impacts individual actions. Additionally, we found that the presence of important people who have strong power within the organization not only diverts subordinates' attention and reaction to specific behaviors as instructed, but also maximizes their capacity to take on the role of the group and control their line of reasoning. This factor, in a fully institutionalized system, is crucial in determining the working consensus within an organization. The evidence is illustrated in the following quote:

> "Come on, don't talk about policy. Rules in local governmental policy are beautiful in words. I will give you a real example. It is well stated all business licences must be processed and completed as soon as possible, and local leader must be cooperative. I think such rules are just good in documents, not in their implementation. One day there was an individual who wanted to prolong her business licences. She came to my office. I knew well, she brought all the required documents, and I was sure all were complete. There were no missing required documents from her. But, because I got a mandate from the head of the department that I have to be creative. I tried to postpone her process until three months to make her aware that it is not for free. This is the practice. I don't have a choice" (*Interviewee* 1).

Then, our interviewees also explain that subordinates hold various beliefs about the roles they should play in the leadership process. The following quotes indicate that some subordinates see themselves as partners of their leader, blindly obedient to their leader's orders, while others view themselves as victims of their leader's desires. Despite the differing views on the leader's orders, the transference of deviant desires remains the outcome. This behavior stems from the diminution of a substantive element of positive human nature. As suggested in the quotes, the leader and his/her subordinates are embedded in structurally-based norms for exercising control. They obey a leader's directive because their lower status role requires them to do so.

> "His ambitions leave us powerless. We cannot say why we have to do that. Maybe because we are just employees". (*Interviewee* 8).

> "Basically, we can refuse all commands which are not in conjunction with national or local governmental policies, but it is very rare to be seen here. We place ourselves in comfortable positions by following our head of the department". (*Interviewee* 13).

> "For me, I think there is no something new if all staff must be obedient to authority. Based on the existing policies or not, such an act becomes our responsibility". (*Interviewee* 1).

> "I don't mind with that (corrupt order), we have to work together, right". (*Interviewee* 7).

> "Within a governmental system, togetherness is important. There is nothing wrong. It is how our norms work". (*Interviewee* 3).

> "We trust our leader's judgment, even when it feels uncomfortable". (*Interviewee* 11).

A sense of belonging, interchangeably called social identity, is more likely to contribute considerably to completing tasks. The following quotes confirm that the group situation is central to self-concept, and the subordinates feel strong emotional ties to the group.

> "Actually, it depends on the groups to which we belong. We cannot act differently in our work environment". (*Interviewee* 5).

> "We don't just work for personal gain; we work for the success of the group." (*Interviewee* 7).

> "It's this unity that pushes us to go the extra mile." (*Interviewee* 12).

Furthermore, other interviewees outline how a sense of who we are and where we belong contributes to constructing a justification for particular actions, even when they are morally wrong. Their arguments indicate that illicit desires, latent in everyone, may shed light on the dynamics of severe fraud temptations. As explained in their quotes, this happens through the reconstruction of their initial reasoning based on the existence of the social environment. From this social perspective, the notion of desire by fraud perpetrators is essentially independent of any judgment, always concerning what is beneficial or advantageous for themselves (Maulidi, 2020). So, when there is no equally balanced judgment between fraudulent reasoning and benevolent desire, malignant acts may bring a sustaining sense of addiction in the most explicit

manner and with exquisite felicity. It is not only about the non-sharable problems as the primary triggers (Cressey, 1953) but also the vehemence of their reasons for getting involved in it.

> "For this topic, I will not speculate. Honestly, I do not know what should I do with it, but I am just happy to help my boss (head of the department). I have worked here more than nine years. I love this organization. I feel his success makes me satisfied." (*Interviewee* 1).

> "It's not just about personal gain; it's about fulfilling the group's expectations, even if it means bending or breaking the rules." (*Interviewee* 4).

> "We possess a strong sense of moral responsibility over our leader' instructions." (*Interviewee* 7).

> "We are as echelons just perform their order. They want to make everything legitimate, although it is in fact not legitimate. This is crazy right? But my position will be staked if I am not the line of the organization." (*Interviewee* 5).

In a review of a study on the psychological utility of social groups, Correll and Park (2005) draw a distinction between two types of groups based on members' attitudes towards them: liking versus disliking for the group. Their study shows that the level of distinctiveness between group members in a given situation determines the degree of self-relevance of the group. They illustrate that an individual's liking for the in-group tends to make the group more psychologically meaningful. Here, the self-concept as an aspect of identity may represent the excellent strength of the connection between the virtues of internal coherence among the group members. As a result, such an individual may psychologically bind him/herself to the group. From this logic, it is also possible to argue that an individual's self-concept, which is conceptualised as an essential component of social identity, may represent a meaningful trigger to behave on the basis of a social group's interests. The self-concepts here are perceived as cognitive tools which enable the individual to react and perform many forms of social actions (Huang et al., 2023). The following quotes show how interactions with important people in an organization can bring changes in an individual's set of attitudes. The more they perceive that referent groups think they should engage in manipulative behavior, the more likely they will intend to do such behavior. As a result, they develop a sense of obligation to adopt the perspective of those in authority and consequently feel less responsible for their behaviors.

> "From the past until now, I have preferred to adjust myself to the work environment. I have had lots of discussions with trusted people, both with people in this department and with other department heads. I ask for advice and opinions. Don't get me wrong, we have attitudes, values, and norms of behaviour that we must help each other." (*Interviewee,* 5).

> "I know corruption is bad behaviour. The situation becomes more puzzling when the highest authority in an organisation organises it." (*Interviewee,* 4).

These arguments are also convinced by other comments, mentioning that:

"Do you think it (fraud) just happens? They (fraud perpetrators) are so clever. They weakened institutionalised cultural authorities. The existing anti-corruption acts cannot stop the practise of corruption, especially in the form of bribe-giving and bribe-taking, paying off, kickback, and the like. In our organisation, no one is harmed by the allocation from one agenda to another. It's just a matter of reporting. It is not a violation and not an unlawful act. We are not here to enrich ourselves." (*Interviewee,* 14)".

"I did it (changing documents) as long as it is not material I thinks it is fine. Almost local governments in Indonesia did the same thing. When they have to make report, we push away of idealism. You do not need to teach me about it. Everybody has already knew it." (*Interviewee,* 11).

With respect to the subordinate perspective, unethical behaviors of the high authority are viewed as permissible. This means that when persons perceive themselves as part of a group, a sense of responsibility to act according to expected behaviors is likely to exist. Hackel et al. (2017) conducted experiments to analyze individuals' motivation and pro-social behaviors between in-group and out-group members. Through fifty university students who participated in their study, they concluded that social identity is more salient than other factors for an individual to behave pro-socially within their group than in other groups. In such a situation, they also claim that social preferences are best understood as a social psychological resource that can influence the identity of an individual in which s/he unfolds. What is important to note here is that the status of the group to which an individual belongs may be motivationally meaningful. The following quotes suggest that fanatic organizational pride allows an individual to exercise self-denial when obeying a leader's unethical directives is required. So, the more they (informants) identify with their organizations, the more likely they are to take the organization's perspective and to act in the organization's best interests.

"[. . .] I became accustomed to following his orders and accomplishing his given tasks without question. I like him and this organisation. I want not to be blamed as a disloyal person. When I asked my colleague who is sitting in front of me why you did it (managing factious invoices)? She spontaneously said it was to report all payments which were made when we travelled for business trips. We could not request all receipts when we made transactions. It is to adjust all reports easily". (*Interviewee,* 5).

"I think, the obedience of a leader's directives was essential for making the organisation better in the eyes of the regent." (*Interviewee,* 13).

"I am able to stand up to a leader's request as long as it is purely for the organisation's best interest" (*Interviewee,* 9).

Furthermore, we found that the contagion of illegal acts within a bureaucratic system can spread rapidly, often due to interactions among co-workers. In many instances, the dishonest behaviors of management are observed and subsequently imitated by subordinates. The following quotes illustrate this phenomenon:

"Every year, we get instruction to manage the remaining budget. It is not easy and dangerous." (*Interviewee,* 10).

"My head of department received instruction from the regent to allocate some percentages of our budget for him. Then him (her head of department) asked us to help him to meet the regent's request." (*Interviewee,* 12).

"I am afraid to do it by myself." (*Interviewee,* 13).

General discussion and Conclusion

In studying fraudulent behaviors, situational aspects are very important to discuss. They contribute to why people act in ways that are inconsistent with their attitudes (Hogg and Vaughan, 2011). Our study supports the theoretical framework that situational factors, such as obedience to authority, are more reliable predictors of individuals' fraudulent behaviors compared to personality traits. Specifically, we identify the conditions that lead an individual to conform to another's judgment, the conditions that determine an individual's intentions, and the conditions that promote cooperative interactions to perform corrupt behaviors. These findings have both theoretical and practical implications, which are discussed separately.

Theoretical implications

Fraud involves unpredictable actions, and several factors have been explored by prior studies (e.g., Wang et al., 2022; Luo et al., 2022). However, these studies do not explore how situational factors provoke the micro-psychological aspects of individuals to commit fraud or how the micro-psychological characteristics of individuals react to situational factors within an organization. Prior studies seem to neglect the reciprocal interactions between these two factors. The current study documents that fraudulent behavior, in the presence of situational factors, especially obedience to authority, can be perpetrated through both collective and individual acts. This study advances our understanding of psychological drives that have not been identified by prior research. Some believe that individuals engage in fraudulent behaviors due to a 'non-shareable problem' (Cressey, 1953; Dorminey et al., 2010, 2012; Kranacher et al., 2010), 'greed and a desire for social status' (Soltani, 2014), 'a culture of competition' (Ramamoorti, 2008), or an 'instrumental climate; (Murphy and Free, 2016).

Furthermore, many psychological scholars, including Bandura (2012), argue that human behaviors cannot be separated from the social system. We found that the dynamics of information and behaviors in the social environment in which individuals work influence their perceptions of ethical issues. They behave according to the values, roles, and norms established by the organization. This behavior arises either as a result of the internalization of ethical standards or through the socialization process. As suggested in our analysis, some informants have been socialized into the behaviors expected by their leaders. Because the power of authority is so apparent, they act in accordance with the leader's wishes, believing that compliance is necessary to fit into the organizational culture or to be recognized as loyal by significant others in the organization. As a result, they tend to argue that their behaviors are not criminal. Instead, they justify their actions as necessary for the betterment of the group and organization. Interestingly, they do not consider or justify disobeying their leader's orders. Therefore, within a bureaucratic environment, the obligation to obey the leader's directives is reinforced by an emotional reflection on the conditions under which disobedience is not justified.

Our study provides a different perspective by focusing on a more individualistic awareness-based approach. It becomes one of the instructive works in understanding social phenomena that foster fraudulent behaviors within organizations. The study shows that the perceived

unethicality of both leaders and subordinates is mutually and reciprocally interdependent. It creates a solid belief that contributes to the normalization of corrupt behaviors in the organization. This interdependent perception is not only expected to explain how collective unethical behaviors occur in routine activities (Mishra et al., 2021; Bryant and Merritt, 2021; Lian et al., 2022) but also to explain how normalized fraud exists within an organization (Fleming et al., 2022). Self-justifiable or excusable exceptions of fraudulent behaviors can be seen as a mechanism to enhance the perceived unethicality of both leaders and subordinates. Therefore, the results of the current study support and extend previous research on the relationship between the legitimacy of authority and obedience (Milgram, 1974; Mohamadi et al., 2020; Qi et al., 2020) by showing that subordinates' beliefs about their role and ethicality can predict their responses to an illegal or immoral act ordered by the authority.

Practical implications

Our study suggests that there is congruity in perceived unethicality between leaders and subordinates. Within an unethical or corrupt culture, subordinates' perceived unethicality aligns with their obedience to unethical leadership. Subordinates are more likely to respond positively to leaders' fraudulent orders when their beliefs are reinforced by the corrupt culture. In response to this situation, an organization can implement training, moral education and redesign managerial policies to focus on developing an ethical culture.

A comprehensive training program should include several key components. Firstly, it must provide in-depth education on the ethical principles and moral standards relevant to the organization, ensuring that all employees understand the importance of these values in their professional conduct. Secondly, the training should incorporate practical scenarios and case studies that illustrate the real-world consequences of fraud, helping individuals internalize the impact of their actions on stakeholders, including colleagues, customers, and the wider community. Thirdly, it should focus on developing critical thinking and decision-making skills, enabling employees to navigate complex situations where ethical dilemmas may arise. Additionally, the training must address the psychological factors that contribute to fraudulent behavior, such as cognitive dissonance, rationalization, and peer pressure. By fostering a culture of openness and accountability, organizations can create an environment where employees feel empowered to speak up and report unethical practices without fear of retribution. By considering this approach, it is expected that there will be incongruity in perceived unethicality between leaders and subordinates. As a result, they will be less likely to obey a leader's unethical or fraudulent request.

Moreover, we argue that it is insufficient for governments to rely solely on rule-based or compliance-based structures. We recommend that organizations proactively attempt to raise moral awareness among their employees, potentially including moral values and moral development in their recruitment and selection criteria. Subordinates' moral awareness plays a significant role in their interactions with colleagues, particularly their leaders. Additionally, it is necessary to have reliable procedures and resources for monitoring, reporting, and investigating breaches of organizational rules or policies. This ensures that ethical standards are upheld and that any violations are promptly addressed, fostering a culture of integrity and accountability within the organization.

Our recommendations are intended to complement the recent study by Yan et al. (2021), which suggests that organizational punishment can deter fraud within an organization. While their suggestion is plausible, its effectiveness may be limited in the long term. The study indicates that when organizations implement severe punishments, employees are less likely to commit

fraud, suggesting that employees' intent to commit fraud is influenced by the fear of consequences – a situational factor. For instance, in the context of our study, the central government, through its apparatus such as the Indonesian Corruption Eradication Commission (nationally known as KPK), often takes firm steps to arrest perpetrators of fraud. The KPK's mandate is to combat corruption at all levels of government, ensuring accountability and promoting integrity within the public sector. However, the effectiveness of these efforts is often undermined by various factors, particularly political interests that influence the arrest and prosecution of fraudsters. Additionally, the entrenchment of corrupt networks within government institutions creates a significant barrier, as those who are part of these networks may have the power to obstruct investigations and shield each other from consequences. As a result, despite the central government's efforts and the KPK's actions, combating fraud remains an uphill battle.

Based on such situations, we argue that relying solely on punitive measures is not a sustainable solution. Instead, promoting fraud awareness and ethical moral among employees can be more effective. When employees have a high awareness of fraud risks and strong ethical values, they are less likely to engage in fraudulent behavior even in the absence of severe punishments. Their reluctance to commit fraud stems not from situational factors but from their internal ethical principles. Therefore, while organizational punishments may deter fraud in the short term, fostering a culture of fraud awareness and ethical integrity is crucial for long-term prevention. This approach addresses the root causes of fraudulent behavior and promotes sustainable ethical practices within the organization.

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