



Article history:

Received: 2018-04-20

Revised: 2018-04-30

Accepted: 2018-05-07

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Dodi Wirawan Irawanto (Indonesia)

Does Culture Matter in Fraud Prevention Behavior? National Culture Based Study of Indonesian Bankers

Abstract

The rapid global movement questions on how a person had a worldview and how his behavior was influenced by its culture. International business meant that culture frequently used by social science researchers in the national cultural dimensions and that related to the economic growth of the financial aspect. Fraud prevention predicted to have a relation on a national culture that was on how the organization created ethical behavior through good corporate governance. This survey explored some important concepts regarding the national culture dimensions that tend to strengthen the fraud prevention actions on Indonesian State Owned Enterprises (SOEs) Bank in East Java as well as to develop an anti-fraud strategy that can be used as one of the efforts in fraud prevention. The findings suggest that national culture played an important role in creating fraud prevention behavior with long-term orientation as the key aspects to be considering in creating a successful organization strategy to combat fraud.

Keywords: Fraud Prevention; Long-Term Orientation; National Culture; SOEs Bank

JEL Classification: D23, F52, K42

Citation: Irawanto, D. W. (2018). Does culture matter in fraud prevention behavior? National culture based study of Indonesian bankers. *Jurnal Keuangan dan Perbankan*, 22(3), 486-495. <https://doi.org/10.26905/jkdp.v22i3.2139>.

Abstrak

Perkembangan globalisasi berdampak pada persepsi individu dalam memandang dunia, berperilaku dan bagaimana budaya memengaruhi perilaku mereka. Bisnis internasional berdampak pada penggunaan dimensi budaya nasional oleh pakar ilmu sosial dalam upaya penelitian perkembangan ekonomi dan finansial. Perilaku anti-fraud diprediksi dipengaruhi oleh budaya nasional dan bagaimana upaya organisasi dalam mencetak iklim organisasi yang etis melalui program good corporate governance. Survei ini dilakukan pada bankir di beberapa bank BUMN di Jawa Timur dengan mengeksplor berbagai konsep penting dalam dimensi budaya nasional yang berdampak pada penguatan perilaku anti-fraud yang bertujuan untuk perumusan strategi anti-fraud di organisasi. Hasil menunjukkan bahwa budaya nasional merupakan aspek yang penting dalam upaya pencegahan fraud dan diidentifikasi perilaku orientasi jangka panjang sebagai aspek utama yang harus diperhatikan dalam penerapan strategi pemerangan fraud secara berkesinambungan.

Kata kunci: Pencegahan Fraud; Orientasi Jangka Panjang; Budaya Nasional; Bank BUMN.

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Over a decade, culture is one of the topics attracting many researchers from diverse disciplines (Adler, 1983; Stahl & Tung, 2015). With rapid global movement, it will be questioned on how a person has a worldview, behave, and how his behavior is influenced by his culture. In the organization, for example, researchers assume that culture directly impacts on human resources management, marketing, financial management, etc. (Kwok & Tadesse, 2006). As Indonesia in the stage in entering globalization since the reformation era, it is forced to implement good corporate governance in attracting the global investors. This has become a mandatory action in any sector of the organization. Therefore, issues such as anti-KKN (literally means corruption, collusion, and nepotism) movement remain a hot topic in the country (Hamilton-Hart, 2001). However, researches regarding how culture affects the anti-corruption are limited in number (King, 2000; Butt, 2011).

Culture is very broad and there is no exact definition of how culture can be measured and operationalized in the management and organizational research (Ambos & Håkanson, 2014). In the area of international business studies, a way to measure culture that is used by social science researchers is the cultural dimensions developed by Hofstede (2011). The important one is that it relates to the economic growth through financial aspect (Hofstede & Bond, 1988). One of the prominent aspects in the management research is what they called as "power distance" issues (Hofstede, 1993). By that definition, national culture is related to the how people behave in their social relationship where Hofstede develops a concept called as national culture dimension that consists of power distance, masculinity/femininity, uncertainty avoidance, individualism/collectivism, and the confucian dynamism/long-term orientation (Hofstede, 2011).

It is undoubtedly argued that globalization is one of the factors that the financial sector needs to be aware of (Plummer & Yue, 2009; Siregar & Tenoyo, 2015). In Indonesia along with the anti-KKN

movement, BI regularly updates its policy related to the anti-KKN action. One of the hot issues in behavior financial research is related to the fraud prevention. BI has issued Circular Letter No.13/28/DPNP dated December 9th, 2011, regarding the Implementation of Anti-Fraud Strategy for Commercial Banks as an effort to prevent cases of fraud in banking that harm customers (Harmanta, Bathaluddin, & Waluyo, 2011). The background of this arrangement serves as a part of the efforts in strengthening bank's internal control system and as the further implementation of Bank Indonesia Regulation (PBI) No 5/8/PBI/2003 dated May 19th, 2003, concerning the Application of Risk Management for Commercial Banks. It is clearly stated that all banks operated in Indonesia need to implement the anti-fraud policy to protect the stakeholders and also to sustain the development of Indonesia economy through the practices of the good corporate governance.

A recent ACFE survey in Indonesia released in 2014 (Klein, 2015), the banking industry and other financial services occupy the first order as the most frequent sector of fraud. It is composed of 17.8 percent of the total cases in the survey occurred in the banking sector. This survey is based on cases of fraud investigated by Certified Fraud Examiners (CFE) spread all over the world, including one in Indonesia. Recently, Kennedy (2017) noted that along with the strengthening of socio-political issues, the issues of fraud action in the Indonesian bank sector is still risky. Recent research also shows that higher power distance accompanied by collectivist culture may lead to the corruption action (Dimant & Schulte, 2016). This is one of the examples of the possibility that the culture of Indonesian bankers is the key factors affecting the fraud actions. Therefore, this research is an attempt to explore what culture dimensions that are coloring the socio-political climate in the typical Indonesian bank organization that may worth to pay attention to creating solid fraud prevention activities.

This article intends to explore some important concepts regarding the national culture dimensions that tend to strengthen the fraud prevention actions on Indonesian financial institutions as well as to develop an anti-fraud strategy that can be used as one of the efforts to fraud prevention. The focus in this study puts more emphasis on state-owned enterprise banking financial institutions in East Java, the 2nd largest province in Indonesia as it is believed that collectivist culture (Fielding, 2015) is still upheld in this province. The study started using literature study that refers to the preceding research and ending with critical analysis through survey and practical solutions related to that problem are lifted.

HYPOTHESES DEVELOPMENT

Financial institutions as an institution that offers services to the public are mandatory to implement good corporate governance as it is regulated by Bank Indonesia Regulation Number 11/33/PBI/2009. As a result, either it is in line with the government regulations or the bank policies, action in the efforts in preventing the occurrence of fraud then need to apply for the anti-fraud program in the form of internal control. This internal control is a representation of the overall activity within the organization that must be implemented (Putra & Simanungkalit, 2015). Whereby, the process undertaken by the board of commissioners is intended for providing reasonable assurance about achieving control objectives effective and efficient operations, the reliability of financial statements and compliance against applicable laws and regulations (COSO 1992 in Spira & Page, 2003).

In the literature, fraud is translated as “deviation.” It is implied. Further, any error and irregularities are each translated as errors and omissions the distinct distinction of aberrations. Errors are whether that action is a deliberate action or an action. Fraud or deviation is done with intentional elements when doing it. ACFE’s defines fraud as taking action deliberately by abusing a job or steal-

ing assets/resources in the organization (Singleton & Singleton, 2010). Fraud, in general, includes the various meanings in which with human intelligence one can plan to gain profit through a false picture and later it is done in the organization, by the organization or for the organization. This action is performed both internally and externally, intentionally, and hidden (Vona, 2008). Generally, fraud does not happen if everyone is honest then companies do not need to be wary of fraud. However, many people claimed to have committed acts of fraud when the environment in which they work has low integrity, low control, and high pressure. Therefore, in line with the business competition among banks, it may trigger people to behave dishonestly (Cohn, Fehr, & Marechal, 2014). Fraud action can be prevented by creating a culture of honesty, an attitude of openness and minimization chance to commit fraud (Biegelman & Bartow, 2012).

Research highlighting the potential risk of fraud has been examined in the various contexts. In the UK central government, for example, Button & Brooks (2013) stated that the building corporate culture in making work environment free for dishonest practice should be followed by strategies that are in line with the government policy. Feng & Yang (2018) also warned that culture plays an important part in making ethical behavior in an organization. Thus, fraud prevention could be established by placing corporate culture in the organization. He noted further that in this globalized world, the presence of the foreign-based financial institution in another country could trigger both anti-fraud behavior and fraud prevention strategies that could enhance the practice of good corporate governance. Taylor & Curtiz (2013) emphasized that power distance issues in the organization could potentially create fraud actions, where in fact is the characteristic of Indonesian until the recent day.

One factor that could prevent fraud according to Biegelman & Bartow (2012) is an honest and ethical culture. Stephens (2015) stated that cheating could be prevented by enhancing the organizational

culture that can be done by implementing good corporate governance principles. It is generally known that by implementing GCG (Bastomi, Salim, & Aisjah, 2017), it will help the organization to promote healthy ethical behavior in the organization (In'airat, 2015). Finance is responsible for implementing a good culture in the company for any possible fraud action can be minimized. It can be seen that culture is important in creating ethical behavior in the organization and there are many different angles to see culture in the management research. For this study, Hofstede national culture is referred to as the framework.

In understanding national culture Hofstede (2011) posited various levels of cultural measurement since most people belong to different groups and categories and every group or category of people carries a set of what he called as "collective programs" that constitutes its cultures. Hofstede (2011) identified the different combinations of elements that are consists of: (1) power distance; (2) individualism; (3) assertiveness; (4) uncertainty avoidance; and (5) long-term orientation.

With regards to the Indonesian power distance index, Indonesians are regarded as high (Irawanto, Ramsey, & Ryan, 2011). It indicates further that power distributed on a regular basis is not equal. With the ruling group at the most level above, then decision-making will be done in a centralized manner and indicates an autocratic and adopting high bureaucracy. Moreover, Indonesia cultural society is characterized by a high degree of collectivism. The individuals inside a group will attach the importance to the group's interests and will pay attention to one individual to another. In this context, the system evaluations designed in an organization will pay attention to cultures that affect the life of the organization and purely based on the achievement of the group goal.

Furthermore, Indonesia is also characterized by a low level of assertiveness which is indicated further by putting more value on the dominant one

which is human-oriented, the quality of life and the environment. This guides individual to value reward system that will be based on the system of cooperation, security, and sense of belonging. Lastly, Indonesian index of the uncertainty of avoidance that in some sense is related to the long-term orientation referring to organizations that have a culture of having a complex monitoring system and one carefully (Irawanto, Ramsey, & Ryan, 2011). It can be seen that it is related to the financial institution's norms in Indonesia. The dominant culture as highlighted by Hofstede still predominantly affects the building of corporate culture as it is consistent with Bryan, Nash, & Patel (2017) study that highlighted the dominance of financial firm cultural institutions. Therefore organizational culture becomes one of the factors that can prevent the occurrence of fraud in an organization.

Organizational culture is a mechanism in which compromises of several aspects. One of the importance is how the society is characterized by a national culture where it can strengthen the organization itself. By applying corporate organizational culture, it can shape the character of the employees to be desired by the organization. Research shows that culture, as it is measured by Hofstede dimensions in large extent, is related to fraud prevention (Khlif, 2016). Furthermore, Cieslewicz (2012) also noted that society with lesser emphasis on power distance as well as collectivism tends to avoid fraud action. Therefore, the 1st hypothesis is stated as follows:

H₁: the national culture dimension relates to the fraud prevention

With regards to the effort in avoiding wrongdoing in the organization, Tsui & Windsor (2001) highlighted that the society has to put the long-term emphasis in pursuing the organization goals. Moreover, Triandis (2018) also noted that during the decades where a country like China that well known for its short-term orientation in the past, drastically

changed its behavior due to the business pressures. Now it placed the importance of long-term orientation; therefore, it leads to the better ethical behavior. Therefore, the 2nd hypothesis as stated as follows:

H₂: acknowledging the behavior of long-term orientation dimension is important in making the fraud prevention effective

METHODS

To answer the research questions posed in this study, a quantitative design is employed using inferential statistic approach. The design that is used for this study is survey design. This study is conducted at selected state-owned enterprises bank owned by the Indonesian government in East Java, Indonesia. Using the purposive design, the population of this study is manager working in the main city branch in 5 big cities in East Java province. Using the purposive design, it allowed the researcher to contact the manager of the selected bank in 5 big cities in East Java and choose the level of manager in each main city branch, resulting in 101 questionnaires returned using the google form services. After having the initial check, there were as many as 89 managers starting from junior manager to branch manager were assigned to give a response to the questionnaires. In this study, the researchers used an independent variable; cultural dimensions applied as it is developed by Hofstede's (2011) while the dependent variable used fraud prevention developed by Hoffmann & Birnbrich (2012). The use of these variables is due to their popularity in the cross-cultural management research as well as their great robustness and consistent from time-to-time in various context. Therefore, later in this study, the pre-check analysis used is only the normality test and outlier test to make sure that the data used for further analysis meet the statistical assumption (Tsang, 2014).

To help to obtain the data, close questionnaires of national cultural dimensions and fraud prevention behavior were used, implementing 5 likert scales. In analyzing the data, correlation analysis using SPSS version 22 was used to test the hypotheses in this study. Moreover, the second problem was solved using correlation analysis. To make the statistical analysis sensible, the descriptive statistics was used to describe the general findings of the data. It is used to explore the data deeper allowing the researcher to analyze the need for clarifying the research questions posed as it is common in business research (Hair Jr. et al., 2015).

RESULTS

The demographic aspects of the respondents showed a positive sign that all the selected managers in their respective bank are representing the good perception of the questions on the questionnaires. All the respondents finished postgraduate program indicating that the maturity in understanding bank initiative in responding to fraud prevention is at the high level. Meanwhile, it was also found that there was more man was found to be the samples of the study regarding the fact that this position is commonly held by a man.

Based on the results of the statistical analysis presented in Table 1, in general, all the variables used in this study after the normality and outlier tests are done, showed robust reliability. Overall the 5 national culture dimensions used in this study has a positive relationship among its construct except for the uncertainty-avoidance dimension in which has positive values but does not have a significant association with the power distance association. Statistically as among five dimensions only, one does not correlate each construct, following Arellano & Bover (1995) are acceptable for further analysis.

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From the results (Table 1), it was reported that the uncertainty avoidance dimension is not associated with the fraud prevention (0.20). It indicated further that this dimension does not have a relationship with the practices of fraud prevention initiatives. Meanwhile, one dimension that is not related to the anti-fraud prevention following the same assumption posed by Arellano & Bover (1995) the H_1 posed earlier is supported. Therefore, H_1 is accepted whereby the national culture dimensions relates to the fraud prevention.

Furthermore, the highest correlation coefficient was found on the long-term orientation dimension (0.58) indicating that the higher the practices of long-term orientation in the organization, the harder the respondents to perceive the intention of fraud prevention led by their organization. On the other side, the lowest correlation coefficient found was on the assertiveness dimension (0.37) which further means that the higher the practices of assertiveness behavior in the organization, the easier the respondents to perceive the intention on fraud prevention led by their organization. Therefore H_2 is also accepted, hereby long-term orientation dimension is important in making the fraud prevention effective.

DISCUSSION

The results are very important and potential to have a closer look at fraud prevention for the bank sector in Indonesia. While for many organization, fraud prevention may be associated with good corporate management practices. In the bank sector where in Indonesia is heavily regulated by the central bank, the fraud prevention action needs are close paid attention on. This study reveals how important the national culture in describing the identity of most Indonesian behavior in some light is affecting the practices of fraud prevention. The results display the fact that creating fraud prevention and measuring the bank satisfactory implement policy that blockage the fraud opportunity may depend on the level of national culture. As the study only applies the correlation analysis, further statistical analysis is needed to confirm further - such as advised by Jackson (2015) that estimates the power of correlation needing advanced statistic tools. Consistent with Irawanto, Ramsey, & Ryan (2011), research shows that Indonesian employee is still characterized by high power distance, uncertainty avoidance, collectivism, long-term orientation and low on assertiveness. This fact in this study showed the fact depicting Bank sector in Indonesia that is owned by the government.

Table 1. Mean, Deviation Standard, and Correlation Coefficients

Variable	Mean	SD	4	5	6	7	8	9
Control Variable								
Gender	0.47	0.47						
Age	3.23	1.73						
Education	2.45	2.45						
Power Distance	3.58	3.54	(0.61)					
Collectivism	3.43	3.08	0.52**	(0.59)				
Assertiveness	3.60	3.35	0.48**	0.62**	(0.67)			
Uncertainty	3.34	3.67	0.14	0.35**	0.40**	(0.69)		
Long Term O.	3.92	3.57	0.39**	0.49**	0.36**	0.23*	(0.82)	
Anti-Fraud	4.08	2.17	0.52**	0.43**	0.37**	0.20	0.58**	(0.79)

* $p < 0.05$, ** $p < 0.01$
 Numbers in parentheses are the Cronbach α of the scales
 Long-Term O = Long-Term Orientation

To establish effective fraud prevention behavior, the bank should try to create a work environment that blockage the potentiality of the collectivism behavior to more individualistic preferences of work, such allowing more autonomous work with the flavor of contemporary team-work based environment (i.e., virtual team) (Nanda, 2016). Also, in the light of power distance and collectivism behavior, in some way, the hierarchy that reflects the structure of the organization needs to be maintained. As Glover & Aono (1995) proposed over two decades ago, strengthening the organizational behavior component in the organization needs to reflect fraud prevention action. Related to the long-term orientation of Indonesian banker which according to them will prevent to the fraud action, Mansor (2015) posed that long-term investment in anti-fraud action through corporate culture needs to take place. Hinkin & Schriesheim (2015) also noted that to be able to force the integrity of act in the organization. The manager needs to place the climate that encourages employees to fulfill the goals in the long-range perspectives. In line with the findings, the study may indicate that promoting long-term orientation as work culture may lead to a lesser extent of fraud action. Wherever possible as what highlighted in the H₂, the changing of short-term orientation to long-term orientation can be done through cultural change within the organization. Therefore, Sims (2009) pointed out that this will result in sustainable action in promoting organizational reputation by encouraging more ethical standards through the work policy.

CONCLUSION AND SUGGESTIONS

Conclusion

To our best knowledge, especially in the Indonesian context, the current study is the first attempt providing an empirical link between employees (various level of bank manager) familiarity with

and knowledge about their bank's fraud prevention and its relationship with the practice of culture as it is measured by national culture dimensions. The results are strengthening our understanding that in some way culture does matter in the fraud prevention initiatives implementation. Guided by national bank regulation that is regularly updated in meeting the current financial condition, this study reveals that culture is very important aspects of the organizational life that every bank needs to pay attention to. In particular, the results show that 4 national culture dimensions have a positive association with the practices of fraud prevention. At least, according to their perception of the bank work, it has the highest association of long-term orientation. As stated earlier that the main objective of the study is to reveal that national culture is assumed to have an impact on the practice of fraud prevention. To achieve this aims, this study surveys one small sample of bank in one of the high populated provinces in Indonesia that is East Java. According to their perception, national culture does matter in making the fraud prevention initiatives effective. With the discussion posed in this study, the managers need to be aware of on how they perceived long-term goals of their organization in making profit of the bank might impact on the successes of anti-fraud action.

Suggestions

However, the study results cannot be generalized in a broader spectrum, such as in private bank, or international affiliated bank as it might be perceived differently as their operational emphasize on the affiliation of noncollectivist behavior. Future research is encouraged to investigate further both on the wider spectrum or to relate it to many performance-based financially related variables to gain a better understanding on the risk of in-effective implementation of national culture that may lead to fraud.

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