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DO INDIVIDUAL CHARACTERISTICS AND BYSTANDER EFFECT INCREASE THE ACCOUNTING FRAUD?

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Abstrak

Penelitian ini bertujuan untuk mengkaji pengaruh karakteristik individu dan fenomena *bystander effect* terhadap kemungkinan terjadinya kecurangan. Karakteristik individu ditinjau dari moralitas dan sifat kepribadian Machiavellian. Penelitian ini merupakan penelitian survei. Kuesioner diberikan kepada 256 pengelola Lembaga Perkreditan Desa (LPD) di Kabupaten Bangli. Data dianalisis menggunakan regresi linear berganda. Hasil pengujian empiris mengungkapkan bahwa hanya variabel moralitas dan *bystander effect* yang meningkatkan kecenderungan kecurangan akuntansi. Variabel sifat Machiavellian tidak berpengaruh terhadap kecenderungan kecurangan akuntansi. Secara praktis, hasil penelitian ini mengonfirmasi peran karakteristik individu dan *bystander effect* terhadap kecenderungan terjadinya kecurangan akuntansi, khususnya pada organisasi keuangan LPD. Temuan ini sekaligus memberi bukti empiris kepada pimpinan LPD untuk mempertimbangkan karakteristik individu dalam memposisikan individu pada jabatan terkait pengelolaan keuangan LPD.

Kata kunci: kecurangan akuntansi, moralitas, Lembaga Perkreditan Desa, sifat Machiavellian

I. INTRODUCTION

The case of accounting fraud has attracted public attention. One of the industrial sectors prone to experiencing fraud is the financial sector, including the Village Credit Institution (referred to as LPD). LPD is a financial institution at the customary village in Bali Province. Although they have received intensive supervision from the community, there is often a conflict of interest between LPD managers and the goal of LPD itself. LPD managers frequently abused their authority to benefit themselves. As a result, several fraud cases have been in the form of the misappropriation of public savings funds (Antaranews.com, 2020). For example, there are indications of misappropriation of productive economic business funds by one of the LPD Selat managers (Fajarbali.com, 2019). Besides, a corruption case was committed by the chairperson of LPD Tanggahan Peken (Balipost.com, 2018) and LPD Langgahan (Patrolipost.com, 2020). Besides, there are many LPD financial cases, such as bad credit, lack of supervision, and internal LPD problems (Patrolipost.com, 2021). Thus, this study intends to explore the personal characteristic behind the fraudulent behavior of LPD managers.

One of the problems related to fraud is the lack of attention to the perpetrators' character (Brody, Melendy, and Perri, 2012). Individual characteristics influence individual involvement in unethical behavior (Jones and Kavanagh, 1996). Fraudulent behavior is related to morality and Machiavellian traits. Low morality encourages fraud to benefit the perpetrators themselves (Setiawan, 2018). Morality has a negative consequence on the fraudulent possibility. The higher the personal moral reasoning level, the lower the individual's propensity to commit fraud (Puspasari and Suwardi, 2016; Fernandhytia and Muslichah, 2020). Individuals with high Machiavellian characteristics are proven to do more unethical behavior such as tax evasion (Budiarto and Nurmalisa, 2018; Matitaputty and Adi, 2021), fraud intention ((Utami *et al.*, 2019; Triantoro, Utami, and Joseph, 2020), or earning management (Figueredo D'Souza, 2020). Social phenomena such as the bystander effect also create a conducive situation for the creation of fraud. The bystander effect factor causes individuals who know fraud cases to allow this fraud (Asiah, 2017). Dewi et al.'s (2018) result show that the bystander effect positively affects the fraudulent. The higher the bystander effect, the higher the propensity for accounting fraud (Sawitri, Kurniawan, and Dewi, 2018).

Several factors motivate this research. First, the fraudulent behavior that occurs in Indonesia is still relatively high. This phenomenon is evidenced by the decline in the Corruption Perception Index ranking, from 40 to 37 for 2020 (Kompas.com, 2021). In addition, high fraud cases also occur in LPD, one of the microfinance companies in Bali. This phenomenon is insufficient to study only from accounting science, and it needs to involve other disciplines. Second, individual characteristics influence a person's reactions. Although each individual has the same condition, not all individuals are willing to commit fraud (Albrecht, Albrecht, and Albrecht, 2004; Wells, 2004; Abbasi *et al.*, 2012). This study explores morality and Machiavellian traits that predict individual fraudulent behavior (Hartmann and Maas, 2010). Third, previous research (Robinson, Robertson, and Curtis, 2012) revealed inconsistent bystander effects on fraudulent behavior. Thus, this study explores the bystander effect's on accounting fraud.

This study aims to examine the influence of individual characteristics and bystander effect on the possibility of fraud. Individual characteristics are viewed from morality and Machiavelian character. The empirical testing results reveal that only the morality and bystander effect variables increase accounting fraud. Also, the Machiavellian variable does not influence accounting fraud.

This study confirms the influence of individual characteristics and bystander effect on the tendency of accounting fraud, particularly in financial organizations. This finding also provides empirical evidence for LPD leaders to consider individual characteristics in positioning individuals in LPD financial management positions.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 *Accounting Fraud*

Statement of Auditing Standards No.99 defines fraud as "an intentional act to result in a material misstatement in financial statements that is the subject of audit." Fraud also defined as an act of fraud by a person/entity that has a negative impact on an individual/other entity (Rustiarini and Merawati, 2021). Based on accounting perspective, the Indonesian Institute of Accountants defines accounting fraud as “misstatements due to fraudulent financial reporting, such as misstatements or deliberate omission of amounts or disclosures in financial statements.” Fraud is defined as "Misstatement arising from improper treatment of assets (misuse/embezzlement).

Thus, the financial statements are not presented following GAAP in Indonesia" (IAI, 2001). There are various forms of fraud lead to corruption, such as actions commonly committed in corruption cases, such as manipulating records, deleting documents, or financial mark-ups that harm the state (Faisal, 2018; Rustiarini *et al.*, 2019).

2.2 *Morality and Accounting Fraud*

Morality is an individual's desire or determination to carry out his wishes or obligations. Individual morality is reflected in their behavior, namely their ability to distinguish between good and bad things. In general, morality can be divided into two things, namely, pure morality and applied morality (Amalia, 2015). Pure moral is called conscience, is the moral that exists in every human being. Involved morals are morals derived from philosophies, religious teachings, and customs adhered to by humans. Individual moral development consists of three stages: pre-conventional, conventional, and post-conventional (Kohlberg and Kramer, 1969; Kohlberg, 1971). The pre-conventional step is the lowest level of the individual, namely, the individual's motivation is oriented towards compliance with regulations or laws. Moreover, efforts are determined by the personal interests of the individual. At an intermediate level, the conventional stage is action-oriented to interpersonal agreement and conformity and refers to society's authority and social norms. The post-conventional step is the highest, namely individual actions oriented to social contracts and universal ethical principles (Kohlberg and Kramer, 1969; Kohlberg, 1971).

In an accounting context, individual morality affects an individual's tendency to commit unethical behavior, such as fraud. The action of individuals who have high morality will lead to "right behavior" (Rest and Narvaez, 1994) and tend to avoid unethical behavior that leads to fraud (Ariani, Musmini, and Herawati, 2014). Thus, individual morality's level affects unethical behavior in organizations (Liyanarachchi and Newdick, 2009). Likewise, in the management of the LPD. The higher the morality of the LPD manager, there is the tendency for accounting fraud to decline. Managers who have good morality will uphold honesty and accountability to reduce the fraudulent. Thus, the first hypothesis is formulated as follows:

H_1: Morality has a negative effect on accounting fraud.

2.3 *Machiavellian Traits and Accounting Fraud*

The Machiavellian introduced by Niccolo Machiavelli (1469-1527) is one of the elements of "The Dark Triad" (Harrison, Summers, and Mennecke, 2016). This personality is related to individual opportunistic behavior. Machiavellian is based on three main characteristics: (1) the use of manipulative tactics, such as trickery and dishonesty, (2) the assumption that humans are weak, easy to control, and unreliable individuals, and (3) ignore morality (Christie and Geis, 1970). Therefore, individuals with high Machiavellian tend to manipulate to gain power, status, and wealth (Verbeke *et al.*, 2011). Previous empirical studies stated that Machiavellian individuals would take advantage of every opportunity to maximize benefits (Sendjaya *et al.*, 2016).

Based on accounting context, Machiavellian individuals commit unethical actions, ignore rules, and even violate procedures. This characteristic allows individuals to manipulate organizational reports to gain personal or group benefits that support the individual's activities (Fihandoko and Achsin, 2016). LPD managers with Machiavellian characteristics will have opportunistic behaviors that benefit themselves. Managers will work aggressively and be manipulative, and they tend to perform manipulative actions. Thus, the higher the Machiavellian nature of an individual, the higher the organization's chance of fraud. Thus, the second hypothesis is formulated as follows:

H_2: Machiavellian traits have a positive effect on accounting fraud.

2.4 *Bystander Effect and Accounting Fraud*

The bystander effect is a social phenomenon that shows individual concern for an event. The individuals do not want to help other who are in an emergency (Latané and Darley, 1970). Individuals are late in reacting and only to observe the events (Brink and Gan, 2015). In accounting fraud, individuals who know that fraud has occurred tend to ignore, choose to silent, or do not want to be involved in the case (Sarwono and Meinarno, 2009). There are four reasons why individuals (bystander) deliberately do not want to interfere in the action (Coloroso, 2008), namely (1) the bystander is afraid of being hurt, particularly if the fraud perpetrator has a higher position or reputation; (2) the bystander is afraid of being a target for actions not taken; (3) the bystander does not want to worsen the situation; (4) the bystander does not know what should take action.

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In the context of LPD financial reporting, the bystander effect causes LPD managers who are aware of fraud to ignore this behavior deliberately. Managers tend not to report these incidents because they interfere with work, even endanger their position or position in the workplace. Most previous studies stated that the bystander effect reduces an individual's intention to disclose fraud (whistleblowing) (Brink and Gan, 2015; Asiah, 2017). The higher the bystander effect phenomenon, the higher the potential for fraud in the organization. Individuals who experience the bystander effect will tolerate unethical behavior so that the potential for fraud is increasingly out of control. Thus, the bystander effect increases the likelihood of fraud (Asiah, 2017; Dewi, Dewi, and Sujana, 2018; Sawitri, Kurniawan, and Dewi, 2018; Tyastiari, Yuniarta and Wahyuni, 2018). Thus, the third hypothesis is formulated as follows:

H_3: The bystander effect has a positive effect on accounting fraud.

III. RESEARCH METHOD

This research was conducted at the LPDs in Bangli Regency, amounted to 159 LPDs. The population was 710 LPD administrators in Bangli Regency in four districts, namely Bangli, Susut, Tembuku, and Kintamani. The selection of this research location was due to many LPD financial cases in these four sub-districts, such as corruption, bad credit, lack of supervision, and internal LPD problems (Patrolipost.com, 2021). Determination of the number of respondents using Slovin formula to obtain 256 respondents. The selection of respondents using proportionate random sampling. Based on this allocation, the researcher gave a questionnaire to the LPD management, particularly the administration or accounting department, met incidentally.

The dependent variable is the tendency of accounting fraud due to the following five conditions: (1) the existence of manipulation, falsification, or changing accounting records and supporting documents, (2) incorrect accounting presentation, omission of significant transactions or financial statement information, (3) misapplication of accounting principles, (4) misstatement of financial statements due to theft, and (5) wrong treatment of assets, accompanied by false records or documents, involving one or more individuals in management, employees, or third parties. The questionnaire has eight (8) statements adopted from Udayani and Sari (2017).

The independent variables consist of individual morality, Machiavellian traits, and the bystander effect. Morality is an individual characteristic that reflects the quality of a person's behavior. This questionnaire was adapted from research by Anastasia and Sparta (2014) and had six statements. Machiavellian traits are personality traits related to individual opportunistic behavior. The questionnaire has 15 statements adapted from Murphy's (2012) research. The last variable is the bystander effect, a social phenomenon that reflects the possibility of an individual reporting another individual committing fraud. The questionnaire was adopted from Asiah's (2017) research and consisted of nine statements. All questionnaires have five Likert scales, namely scale 1 (strongly disagree) to scale 5 (strongly agree). The analysis technique is multiple linear regression.

IV. RESULT AND DISCUSSION

4.1 Statistic Descriptive

Descriptive statistics provide a description of data, is presented in Table 1.

Table 1
Statistic Descriptive Result

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Morality	256	10.00	25.00	16.31	3.02
Machiavellian traits	256	34.00	85.00	66.73	8.78
Bystander effect	256	9.00	33.00	15.69	6.85
Accounting fraud tendency	256	8.00	33.00	12.89	5.16
Valid N (listwise)	256				

Source: Data processed (2020)

Table 1 presents the mean value for each independent variable: the morality variable 16.31, the Machiavellian traits variable 66.73, and the bystander effect 15.69. Meanwhile, the mean value for the variable accounting fraud tendency is 12.89.

4.2 Instrument Test

Instrument testing using validity and reliability tests. The validity test results have a Pearson correlation value greater than 0.3, and a significant correlation of all items is less than 0.05. It can conclude that all statement items are valid. The reliability test results showed that the five variables had Cronbach's alpha (ɑ) correlation coefficient greater than 0.70, and the research variable was reliable.

4.3 Classic assumption test

The Kolmogorov-Smirnov test results obtained a value of 0.134 and Asymp. Sig of 0.152, indicating that the data obtained is normally distributed. The multicollinearity test results of the individual morality, Machiavellian trait and bystander effect have a tolerance value greater than 0.10 and less than 10. It can conclude that the regression model does not experience multicollinearity. The heteroscedasticity test results showed that all independent variables' significance value was more significant than 0.05.

4.4 Multiple Linear Regression Test

Multiple linear regression analysis is used to determine the bystander effect variable, individual morality, and Machiavellian characteristics on accounting fraud's tendency. The results of multiple linear regression analysis are presented in Table 2.

Table 2
Results of Multiple Linear Regression Analysis

Coefficients [a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.788	2.792		1.715	0.088
	Morality	-0.358	0.103	-0.212	-3.463	0.001
	Machiavellian traits	0.012	0.036	0.020	0.327	0.744
	Bystander effect	0.093	0.040	0.143	2.338	0.020
	R					0.262
	R Square					0.069
	Adjusted R Square					0.057
	Std. Error of the Estimate					4.957
	F					6.181
	Sig.					0.000
Dependent variable: accounting fraud tendency						

Source: Data processed (2020)

Table 2 shows the Adjusted R Square value of 5.7%, revealing the magnitude of the influence of individual morality variables, Machiavellian traits, and bystander effect on accounting fraud. The hypothesis testing results show that only individual morality variables and the bystander effect affect the fraud tendency with a significance value of 0.001 and 0.020. Meanwhile, the Machiavellian trait variable has a significance value of 0.744, which means the Machiavellian trait does not affect fraud's tendency.

4.5 Discussion

The results of testing the first hypothesis reveal that individual morality has a negative effect on accounting fraud, which means accepting H1. Morality represents the level of moral reasoning that will impact ethical behavior. The higher the individual moral reasoning, the lower the individual's tendency to commit fraud (Udayani and Sari, 2017). The same applies to LPD financial reporting. The low morality of LPD managers will fertilize acts of fraud that ultimately destroy the organization. Low morality will also damage the organization's ethics and culture, and it reduces organization performance. Conversely, individuals with high morality will lead to "right behavior" (Rest and Narvaez, 1994) and avoid unethical behavior that leads to fraud (Ariani, Musmini, and Herawati, 2014). This study supports previous empirical findings that morality has a negative effect on accounting fraud (Ariani, Musmini, and Herawati, 2014).

The results of statistical tests show that the Machiavellian does not affect the likelihood of fraud. Thus, the result does not support H2. Machiavellians are described as individuals who do not obey the rules (Astutie, 2013) and tend to have the intention to commit unethical actions (Utami *et al.*, 2019; Triantoro, Utami, and Joseph, 2020). However, this study reveals that Machiavellian traits have no effect on accounting fraud in LPD. This result may be because individuals feel that the financial benefits obtained are not as considerable as expected. This condition is following Machiavellian characteristics such as being opportunistic and calculative in decision making. The condition accordance with Machiavellian characteristics, such as opportunistic and calculative nature. They are more likely to commit unethical actions if they are clear about the personal benefits obtained from such activities (Christie and Geis, 1970; Sakalaki, Richardson and Thepaut, 2007). Also, high Machiavellian individuals have higher idealism characteristics than low Machiavellian individuals. This character makes high Machiavellian individuals not easily influenced by the behavior of others. Thus, although individual characteristics lead to high Machiavellian traits, the results show that Machiavellian traits do not affect accounting fraud.

The third hypothesis's statistical testing results state that the bystander effect positively affects accounting fraud. Thus, H3 is accepted. The bystander effect is a social phenomenon regarding the possibility of someone assisting when another person is in an emergency (Sarwono and Meinarno, 2009). In the context of LPD financial reporting, individuals who are aware of fraud usually choose to remain silent or allow fraudulent activity to be carried out. The bystander effect causes LPD managers who are aware of fraud to ignore this behavior deliberately. The strengthening of the bystander effect phenomenon raises concerns because it will increase fraudulent in LPD organizations.

Accounting fraud occurs because of the bystander effect. Someone is aware of fraud but chooses to remain silent and deliberately ignores him because he does not want to be involved in the case, which can interfere with his position or job position. This result shows that an increase in the bystander effect has an impact on an increase in fraud. Several conditions that create a bystander effect, such as (1) the bystander is afraid of being hurt, particularly if the perpetrator of the fraud has a higher position or reputation; (2) the bystander is afraid of being a target for actions not taken; (3) the bystander does not want to worsen the situation; (4) the bystander does not know what should take action (Coloroso, 2008). The results support previous studies (Asiah, 2017; Dewi, Dewi, and Sujana, 2018; Sawitri, Kurniawan, and Dewi, 2018; Tyastiari, Yuniarta, and Wahyuni, 2018) that bystander effect positively affects accounting fraud.

V. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

This study examines the effect of individual characteristics and bystander effect phenomenon on the possibility of fraud. Individual characteristics are viewed from morality and Machiavelian character. Individual characteristics will determine how a person reacts, while the bystander effect phenomenon increases fraud potential. However, empirical testing results reveal that only the morality and bystander effect variables increase accounting fraud. The Machiavellian variable does not affect accounting fraud. This finding does not support previous studies' results, stating that Machiavellian tend to perform manipulations, such as fraudulent financial reporting.

This study has a limitation, which only examines the personal characteristics of LPD managers. The test results showed that individual characteristics could only explain fraudulent's tendency to occur by 5.7%. Thus, further researchers have the opportunity to examine personal (locus of control, personality type) and organizational (internal control, ethical culture, compensation, organizational justice) factors that increase the potential for fraud.

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