

## The effect of decision making related rationalization on fraud and the mediating role of psychosocial work environment

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### ABSTRACT

This study aims to examine the influence of the psychosocial work environment on the proclivity for asset misuse in the context of local government management, with a focus on the perceptions of administrators in Central Sulawesi Province. Employing purposive sampling, a total of 39 government units constituted the study's population, with a final sample size of 114 participants, comprising administrators, officers, and managers. WarpPLS software was employed to analyze the data. The findings reveal a positive relationship between rationalization and the inclination toward asset misuse. Additionally, rationalization exhibits a negative impact on the psychosocial work environment. Finally, the psychosocial work environment demonstrates a negative influence on the propensity for asset abuse. These outcomes suggest that the psychosocial work environment plays a pivotal role in mitigating the inclination for asset misuse within the local government of Central Sulawesi Province. This research sheds light on the significance of fostering a positive psychosocial work environment to enhance decision-making processes and reduce the likelihood of fraudulent activities in the management of government assets. Understanding these dynamics is crucial for the development of strategies to promote ethical and responsible asset management in local government entities.

## 1. Introduction

Fraud has emerged as a prevalent issue on a global scale, attracting considerable attention from the business community. This phenomenon is not unique to Indonesia, where fraudulent activities have unfortunately become a recurring occurrence over the years. Fraud, in essence, constitutes a deliberate act aimed at causing financial harm. It typically arises from a confluence of factors, including pressure, opportunity, and rationalization, which influence an individual's decision-making process. Pressure often stems from financial needs or personal difficulties, compelling individuals to contemplate fraudulent actions. Opportunities for fraud materialize in environments characterized by weak controls and an absence of information discipline, allowing wrongdoers to act with relative impunity (Zufadlin, 2018). In the context of decision-making, the interplay of these factors is significant. Individuals faced with financial pressure may rationalize fraudulent activities as a means of addressing their immediate needs, highlighting the complex cognitive processes that underlie the decision to engage in fraudulent behavior. Moreover, the presence or absence of opportunities to commit fraud plays a pivotal role in the final decision to perpetrate such acts, underscoring the importance of a robust control environment in mitigating fraud-related risks.

Regional assets represent a crucial resource for local governments, serving as a primary source of local revenue. Hence, it is imperative for local authorities to ensure effective asset management. Regional asset management involves the administration of regional assets or property in accordance with the fundamental principles of asset management. This necessitates adherence to the foundational policies delineated in legal frameworks, including laws, government regulations, presidential decrees, ministerial decrees, and other relevant directives governing regional asset management (Budisusilo

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and Suryantoro, 2005). Regional government assets encompass all assets owned by the region, whether acquired or procured through regional budget allocations or other legitimate means, including both tangible and intangible assets and their constituent parts or distinct units that can be quantified, assessed, measured, or weighed. This encompasses assets like vehicles such as cars and motorcycles (movable) and office supplies and equipment, including computers, printers, copiers, tables, and chairs (immovable). While employees are granted access to these assets in accordance with established rules and regulations, it is important to acknowledge that employees may also engage in fraudulent activities and misuse the assets at their disposal. In the context of decision-making, research conducted by Examiners (2008) highlights that both long-tenured and senior employees and managers are not immune to the temptation of fraudulent acts or asset abuse. This underscores the significance of robust decision-making processes and controls to prevent such misconduct and safeguard regional assets.

Fraud, typically orchestrated by individuals within an organization or company, is more challenging to uncover when it is perpetrated by leaders or management as opposed to lower-level employees. This form of deception is the most prevalent and is commonly executed by employees with limited influence or authority within the organization. According to data from the Indonesia Corruption Watch (ICW) spanning the years 2014 to 2018, various corruption cases, including bribery, abuse of authority, fund misappropriation, and data falsification, were investigated by the Corruption Eradication Commission (KPK), totaling 64 cases distributed across several regions in Indonesia, including in some regencies in Sulawesi (Sohuturon, 2018; Zamzam, 2019). Within the realm of decision-making, this highlights the importance of vigilance and robust controls in detecting and preventing fraudulent activities, particularly those involving higher-ranking individuals, where the potential for concealing malfeasance is greater.

The occurrence of fraud, both within the private and public sectors, is intricately linked with individual behavior. Nevertheless, recent research has faced criticism from various scholars, as fraudulent conduct is not solely a product of individual factors but is also influenced by organizational, social, and environmental factors (Wells, 2005; Ramamoorti, 2008; Krambia-Kapardis, 2016; Yusrianti et al., 2020). This study places emphasis on understanding the role of the psychosocial work environment in mitigating fraud in asset management. Environmental factors in this research are grounded in the concept of external attribution theory, wherein the financial behavior associated with asset management is impacted by the psychosocial work environment. The psychosocial work environment, as construed in this study, pertains to the individual's perceptions and beliefs regarding the workplace surroundings (Bandura, 1976). The work environment encompasses all elements that exert an influence on an employee's physical and mental well-being. An adverse work environment has the potential to foster dishonesty. Fraud often arises due to a lack of awareness regarding situational factors, coupled with rationalization (Ashkanasy et al., 2006). This research underscores the significance of comprehending how the psychosocial work environment shapes the decision-making processes related to asset management and the potential consequences on fraudulent behaviors, highlighting the interplay of individual and environmental factors in such decisions.

This article's primary objective is to delve into the intricate factors underlying fraudulent behavior, with a particular focus on the role of the psychosocial work environment. It acknowledges that fraud is a multifaceted phenomenon, influenced not only by individual factors but also by organizational, social, and environmental elements. By examining how the perception of the work environment impacts financial decision-making and the tendency to engage in fraudulent activities, this research provides a holistic understanding of fraud. Its findings hold practical significance, as they can inform organizations in crafting strategies to foster ethical work environments and reduce the risk of fraudulent conduct. Moreover, this research contributes to the academic discourse on fraud by shedding light on the interplay between individual beliefs, situational factors, and rationalization within the context of asset management, potentially paving the way for further studies in this field. In essence, this article's core contributions lie in its ability to offer a comprehensive perspective on the origins of fraud, provide practical implications for fraud prevention, and advance the academic understanding of fraudulent behavior within the context of decision-making processes related to asset management.

## **2. Literature Review and Hypothesis Development**

### *2.1. Rationalization and Its Influence on Asset Misappropriation*

Rationalization represents a significant motivator for individuals when contemplating engaging in fraudulent activities. It encapsulates the psychological inclination to self-justify actions, thereby mitigating feelings of guilt associated with those actions. Rationalization enables individuals to morally validate their behavior, even when it involves misconduct, such as the fraudulent misuse of assets. Building upon previous research by Mardiah (2021), which investigated the impact of rationalization on asset misappropriation, the findings confirmed the utility of rationalization in predicting instances of asset misappropriation. Previous studies have extensively explored the concept of the fraud risk triangle and its components, shedding light on the role of rationalization in motivating fraudulent behaviors, particularly in the context of asset management. Notably, Cressey (1953) introduced the fraud triangle, a precursor to the modern fraud risk triangle, consisting of three key elements: perceived financial pressure, perceived opportunity, and rationalization. This foundational work laid the groundwork for subsequent research on rationalization's role in fraudulent activities. Further investigations have corroborated the idea that rationalization is a critical element in the decision-making processes of individuals contemplating fraudulent actions. Research by Albrecht and Albrecht (2004) emphasized the psychological aspects of rationalization,

indicating that individuals often employ cognitive dissonance reduction strategies to justify their fraudulent actions and alleviate moral conflicts. This research underscores the psychological dimension of rationalization as a means to legitimize misconduct, thereby linking it to fraudulent behavior. Additionally, research by Dechow, Sloan, and Sweeney (1996) explored rationalization in the context of financial statement fraud, highlighting that executives engaged in fraudulent financial reporting often relied on rationalization to justify their actions. These prior studies collectively establish a strong theoretical and empirical foundation for the hypothesis that rationalization plays a pivotal role in influencing fraudulent tendencies within the domain of asset management (Anindya & Adhariyani, 2019; Hashim et al., 2020; Mohamed et al., 2021). Based on the aforementioned research insights, it is posited that there exists a direct relationship between rationalization and the likelihood of fraudulent practices occurring within the ambit of local government asset management. Therefore, the hypothesis is formulated as follows:

**H<sub>1</sub>:** *The presence of rationalization positively correlates with an increased propensity for fraudulent activities.*

## 2.2. *The Interplay of Rationalization and Psychosocial Work Environment*

An individual's ethical conduct is intrinsically linked to the state of the psychosocial environment they operate within, as human behavior is intricately shaped by contextual influences. Notably, a stronger inclination towards rationalization corresponds with a diminished quality of the psychosocial work environment. As indicated by Sandhu (2016), a range of factors encompassing the environmental, organizational, and individual domains create opportunities for fraudulent activities to manifest. Furthermore, Chandrasekar (2011) and Pitaloka & Sofia (2014) underscore that the work environment exerts both positive and negative impacts on employees. Consequently, the interplay between rationalization, ethical decision-making, and the psychosocial work environment is evident. This leads to the formulation of the hypothesis that as an individual's propensity for rationalization increases, the quality of their psychosocial work environment diminishes. Such a hypothesis underscores the integral role of rationalization in the decision-making processes, particularly concerning ethical behavior, and its implications for the overall work environment. Previous research has delved into the intricate relationship between rationalization and its impact on the psychosocial work environment. Rationalization, as a psychological mechanism, has been explored in the context of ethical decision-making and workplace dynamics.

Researchers have underscored that rationalization plays a critical role in shaping individual behavior within organizations. Research by Tenbrunsel and Messick (2004) examined how rationalization influences unethical behavior within a corporate setting. They argued that individuals often employ rationalization as a cognitive tool to justify unethical actions, which, in turn, can erode the ethical fabric of the work environment. Moreover, findings from Treviño and Nelson (2011) suggest that when individuals rationalize unethical conduct, they may perceive the work environment as more permissive of such behavior, contributing to a negative psychosocial work environment. Additionally, research by Kish-Gephart, Harrison, and Treviño (2010) emphasized the role of rationalization in unethical decision-making, which, when observed within an organizational context, can lead to a deteriorating psychosocial work environment. They proposed that rationalization serves as a cognitive mechanism to neutralize guilt and facilitate unethical actions, ultimately undermining the interpersonal dynamics and ethical climate within the workplace. These studies collectively provide a strong foundation for understanding the relationship between rationalization and its detrimental impact on the psychosocial work environment. Drawing from these considerations, the study has developed the following hypotheses:

**H<sub>2</sub>:** *Rationalization has a negative influence on the psychosocial work environment.*

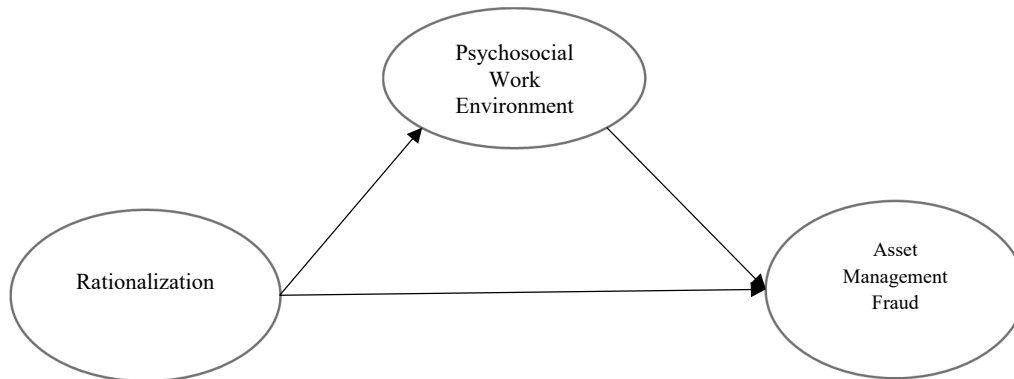
## 2.3. *Influence of the Psychosocial Work Environment on Asset Misuse Fraud*

The quality of the psychosocial work environment plays a pivotal role in influencing the occurrence of asset misuse fraud, as it can yield both favorable and detrimental effects. Notably, a positive work environment can act as a deterrent against fraudulent misappropriation of assets, as demonstrated by Bell and Carcello (2000). In a similar vein, research by Ollukaran and Gunaseelan (2012) substantiated the premise that the work environment can exert either a constructive or adverse impact on employee performance. Drawing from these insights, it can be inferred that a robust psychosocial work environment negatively affects the propensity for fraud. Consequently, a more positive perception of the psychosocial work environment is associated with a reduced inclination for individuals to engage in fraudulent activities in the realm of asset management. This underscores the significance of the work environment in shaping individual decisions and its potential to deter fraudulent behavior.

Previous research has explored the intricate relationship between the psychosocial work environment and its impact on the tendency to commit fraud, particularly within the domain of local government asset management (Maulidi, 2020; Maulidi & Ansell, 2021). Scholars have shed light on how the quality of the psychosocial work environment can significantly influence ethical decision-making and, in turn, the occurrence of fraudulent activities (Nguyen & Crossan, 2021; Ali et al., 2023). Teo et al. (2020) examined the impact of the psychosocial work environment on employee behavior. They highlighted that a positive and supportive work environment fosters a sense of ethical responsibility and moral behavior among employees, thus reducing the likelihood of fraudulent actions. Furthermore, research by Langfred (2004) delved into

the psychosocial work environment, emphasizing its influence on individual behavior and attitudes. In addition, West et al. (2019) and Taherdoost (2021) shows that a favorable work environment can promote ethical behavior and deter fraudulent tendencies, particularly in decision-making processes related to asset management. Taken together, these studies provide compelling evidence that the psychosocial work environment has a profound impact on the tendency to commit fraud. A positive work environment can reduce this propensity by instilling a sense of ethics and responsibility among individuals, which, in the context of local government asset management, is of paramount importance for preventing fraudulent activities (Hashim et al., 2020; Chhabra Roy & Prabhakaran, 2023; Zhang et al., 2023). This body of research underscores the critical role of the psychosocial work environment in shaping decision-making processes and ethical behavior in the context of local government asset management. In light of the foregoing discussions, the present study posits the following hypothesis:

**H<sub>3</sub>:** *The psychosocial work environment has a negative influence on the propensity for fraudulent activities.*



**Fig. 1.** Research Framework

### 3. Research methods

The theoretical framework for this study is rooted in the Fraud Triangle and the psychological aspects of decision-making. The Fraud Triangle, proposed by Cressey and later expanded upon, suggests that three key factors contribute to the likelihood of fraud: pressure, opportunity, and rationalization. The theoretical framework draws from the Fraud Triangle model, emphasizing the role of rationalization in local government asset management fraud. Rationalization, a cognitive process justifying unethical actions, aligns with H1, proposing its positive influence on fraud propensity. Organizational psychology insights guide H2, suggesting that higher rationalization levels lead to a poorer psychosocial work environment. These principles underpin H3, positing that the psychosocial work environment, influenced by quality and perceptions, negatively impacts the tendency for fraud in local government asset management (Figure 1).

The research design employed a quantitative approach using a survey method to collect opinions and perceptions of respondents regarding the managerial performance of local government apparatus in Palu City. A questionnaire was used to measure variables related to fraudulent behavior in the misuse of regional assets, with a focus on work environment factors and individual characteristics. Questionnaires were distributed electronically via Google Forms to asset management officials of the Central Sulawesi provincial government, and data were collected from 117 respondents working in various local government units. The Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), was utilized for responses.

The data were processed and analyzed using WarpPLS software to test the research hypotheses (Latan & Ghozali, 2016). Structural model analysis was applied to measure the overall structure of the equation model, evaluating the relationships between variables and assessing the impact of rationalization, work environment, and individual factors on the tendency for fraudulent behavior in local government asset management. This research design allowed for a systematic and quantitative exploration of the complex relationships under investigation.

### 4. Results

Table 1 provides an overview of the questionnaire distribution and response rates. A total of 117 questionnaires were distributed to the intended respondents, representing 100% of the distributed surveys. Out of these, only 3 questionnaires, which make up 2.5% of the total, were not returned by the recipients. The remaining 114 questionnaires, comprising 97.5% of the distributed surveys, were successfully returned by the respondents and are available for further analysis. Hence, the number of questionnaires that can be processed and included in the study is also 114, representing 97.5% of the initially distributed surveys. This table highlights the response rates and the quantity of data available for the research.

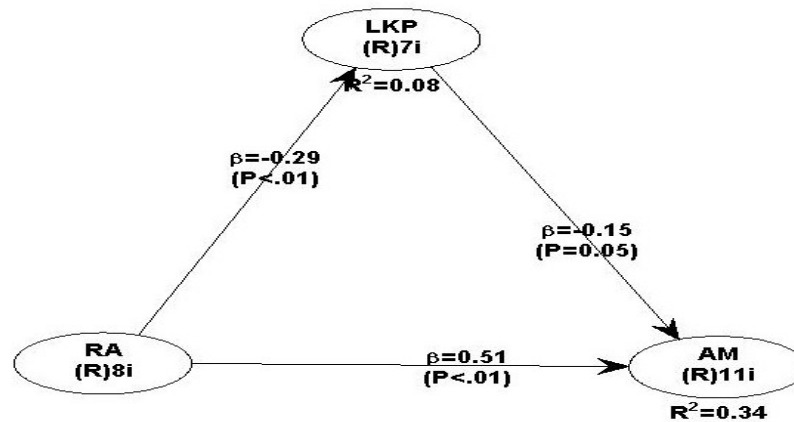
**Table 1**  
The number of questionnaires

	Amount	Percentage
The number of questionnaires distributed	117	100%
Number of questionnaires that were not returned	3	2.5%
Number of returned questionnaires	114	97.5%
The number of questionnaires that can be processed	114	97.5%

Table 2 provides an assessment of the model suitability indicators, offering valuable insights into the appropriateness and fitness of the research model. The Average Path Coefficient (APC) of 0.391 with a significant p-value of <0.001 indicates meaningful relationships between variables, contributing to a well-fitting model. Moreover, the Average R-squared (ARS) and Average Adjusted R-squared (AARS) values of 0.210 and 0.200, both with p-values less than 0.05, reinforce the model's strong fit, demonstrating the substantial explanatory power of the independent variables. The Average Block VIF (AVIF) and Average Full Collinearity VIF (AFVIF) values, well below the recommended thresholds, signify minimal multicollinearity issues, further supporting the model's fitness. While the Tenenhaus GoF (GoF) value of 0.329 is relatively small, it still surpasses the threshold of 0.1, indicating a reasonable model fit. In conclusion, these indicators collectively affirm the appropriateness and effectiveness of the research model, with meaningful relationships, minimal multicollinearity, and satisfactory explanatory capacity.

**Table 2**  
Model Suitability Indicators

Parameter	Score	Limitation	Conclusion
Average path coefficient (APC)	0.391 $p < 0.001$	$p < 0.05$	Model fit
Average R-squared (ARS)	0.210 $p < 0.001$	$p < 0.05$	Model fit
Average adjusted R-squared (AARS)	0.200 $p < 0.001$	$p < 0.05$	Model fit
Average block VIF (AVIF)	1.108	acceptable if $\leq 5$ , ideally $\leq 3.3$	Model fit
Average full collinearity VIF (AFVIF)	1.351	acceptable if $\leq 5$ , ideally $\leq 3.3$	Model fit
Tenenhaus GoF (GoF)	0.329	small $\geq 0.1$ , medium $\geq 0.25$ , large $\geq 0.36$	Model fit



**Fig. 2.** Full Structural equation model

Table 3 illustrates that, at a significance level of 0.05, a statistically significant path exists within the empirical research model, as evidenced by the resulting P value being less than 0.05. Structural model analysis, conducted to examine the research hypotheses, is applied. The findings derived from analyzing the comprehensive equation model, processed using WarpPLS software, are presented in Fig. 2.

**Table 3**  
Hypothesis Testing

Hypothesis	p-values	Regression coefficient	Decision
H1= Rationalization- Fraud	0.00	0.51	Accepted
H2= Rationalization- Psychological work environment	0.01	-0.29	Accepted
H3= Psychological Work Environment- Fraud	0.01	-0.15	Accepted

Table 3 presents the results of hypothesis testing, aiming to assess the statistical significance of the relationships between the variables. In the context of the first hypothesis (H1), which investigates the association between rationalization and

fraud, the remarkably low p-value of 0.00, coupled with a positive regression coefficient of 0.51, underscores the high level of statistical significance and confirms the acceptance of this hypothesis. This outcome substantiates that rationalization exerts a positive impact on the proclivity for local government asset management fraud, aligning with the research hypothesis. It suggests that rationalization, as a factor influencing decision-making, contributes to a greater tendency for asset misuse and fraudulent activities in asset management. These findings resonate with prior studies, such as those conducted by Mardiah (2021) and Tarmizi (2021), which similarly demonstrated the influence of rationalization on individuals' propensities to misuse assets. This aligns with the broader body of research that has consistently identified the role of rationalization as a key driver of fraudulent activities, especially in asset management contexts (Malimage, 2019; Ren et al., 2021; Owusu et al., 2022). The significant positive regression coefficient highlights the strength and direction of this relationship, emphasizing the need for organizations to address rationalization as part of their strategies to combat fraudulent behavior in local government asset management (Shepherd & Button, 2019; Maulidi & Ansell, 2021).

The second hypothesis (H2), which delves into the relationship between rationalization and the psychosocial work environment, yields a p-value of 0.01 and a negative regression coefficient of -0.29. These findings establish the statistical significance and acceptance of H2, affirming that rationalization indeed exerts a negative influence on the psychosocial work environment. This implies that individuals with higher levels of rationalization experience a poorer quality psychosocial work environment. These results align with previous research, such as the studies conducted by Chandrasekar (2011), Petaluma & Sofia (2014), which have demonstrated that rationalization affects the psychosocial work environment, impacting employees' ethical and unethical behavior. This research underscores the importance of addressing and mitigating the impact of rationalization on the work environment to promote a more positive and ethical organizational culture. These findings are consistent with prior research that has established the detrimental impact of rationalization on work environments and employee behavior. Acknowledging the significance of this negative influence is critical for organizations aiming to foster a healthier and more ethical work environment. By addressing and mitigating rationalization, they can enhance the psychosocial work environment and, in turn, contribute to more ethical decision-making among employees, which is congruent with the findings of Arnett and Hunt (2002) and O'Fallon and Butterfield (2012).

Similarly, in the third hypothesis (H3), which centers on the relationship between the psychosocial work environment and fraud, a p-value of 0.01, combined with a negative regression coefficient of -0.15, signifies statistical significance and the acceptance of H3. These results indicate that the psychosocial work environment exerts a negative influence on the propensity to engage in fraud within local government asset management. Based on these findings, it is evident that the third hypothesis supports the notion that a more favorable perception of the psychosocial work environment is associated with a reduced inclination among individuals to commit fraud in asset management. These results align with various studies emphasizing the substantial impact of the psychosocial work environment on individuals, influencing both ethical and unethical behaviors. This research is further supported by the findings of Samson (2014), who highlighted the critical role of psychosocial factors in enhancing social support and controlling work situations, and by the work of Cressey (1953), which illustrated that a positive work environment encourages employees to adhere to policies, act in the organization's best interests, and reduce the likelihood of employee fraud. These results are in line with Kuenzi et al. (2020) and Yantib & Untaric (2020) who underlines the large impact of the psychosocial work environment on individual ethical behavior and the ethical climate of the organization as a whole. This research contributes to the growing body of evidence emphasizing the importance of fostering a positive psychosocial work environment to promote ethical behavior and mitigate the occurrence of fraudulent activities in local government asset management.

The implications of the findings for the decision-making process within the fraud triangle perspective are significant and guide organizations in their efforts to prevent and detect fraud. To mitigate the pressure component, organizations should address the underlying financial stressors and foster a supportive work environment (Shepherd & Button, 2019). For opportunity reduction, strong internal controls and oversight systems are essential to minimize the chances for fraudulent activities (Rustiarini et al., 2019; Maulidi & Ansell, 2021). Decision-makers need to be aware of the potential for rationalization and should promote ethical behavior by establishing codes of conduct and ethics training (West et al., 2019; Nguyen & Crossan, 2021; Zhang et al., 2023). Continuous monitoring, data analysis, and whistleblower protection mechanisms are vital for early fraud detection (Shonhadji & Maulidi, 2021). By considering these implications, organizations can actively manage the elements of the fraud triangle, thereby reducing the risk of fraudulent activities and cultivating an ethical and compliant decision-making culture.

## 5. Conclusion

In conclusion, this study has unveiled significant findings regarding the influence of rationalization and the psychosocial work environment on fraudulent behavior in local government asset management. Firstly, the analysis revealed that rationalization has a positive effect on the tendency of asset misuse, signifying its role in promoting fraudulent activities. Concurrently, rationalization was found to have a negative impact on the psychosocial work environment, suggesting that individuals with higher rationalization tend to experience a poorer work environment. Additionally, the research demonstrated that a more positive perception of the psychosocial work environment correlates with a reduced propensity for fraud in asset management.

Theoretical implications of this research shed light on the interplay between rationalization, the psychosocial work environment, and fraudulent behavior, enriching the understanding of decision-making processes in the context of the fraud triangle. Practically, these findings underscore the importance of organizations addressing rationalization and enhancing the work environment to foster ethical behavior and deter fraudulent activities. Nevertheless, this study has its limitations, such as the focus on one geographic area and the use of self-reported data. For future research, it is recommended to delve deeper into individuals' motives for fraud and further explore the extent of the psychosocial work environment's influence on asset misuse. Expanding the scope of research will provide a more comprehensive understanding of these critical factors in the context of fraud prevention and management.

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