

**DETERMINANTS OF ASSET MISAPPROPRIATION BY EMPLOYEE
FROM NEW FRAUD TRIANGLE THEORY PERSPECTIVE
(Case Study on Holding Company in Central Java)**

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Abstract: *This study aims to analyze the factors affecting assets misappropriation from new fraud triangle theory perspective. This new perspective has four components that trigger fraud, namely: pressure, opportunity, capability, and integrity. In this study pressure factor is separated between financial and non-financial. This study's population was all holding company employee, totaling 350 employees. The sampling technique employed was purposive sampling. Respondents of this study are employee that member of a holding company in Central Java. Employees chosen as samples are employees who have the authority to carry out certain tasks or positions, and the number of samples is proportional to each company. The data were obtained by distributing questionnaires to 88 employees. The data analysis then utilized Wrap PLS analysis tool version 6.0 software. The results of this study indicate that financial pressures, opportunities, and capabilities influence assets misappropriation. Meanwhile, non-financial pressure and integrity do not affect the misappropriation of assets.*

Keywords: *pressure, opportunity, capability, integrity, assets misappropriation*

1. Introduction

The misuse of assets is one of the frauds that has received the most global attention. This is based on the results of the 2018 Report to The Nations conducted by ACFE Global, where cases of misuse of assets from 2012 to 2018 have a higher number of cases than financial report fraud and corruption. Asset misuse cases get a percentage of 80%, even in 2018 it reached 89%. These results indicate that the percentage of cases of asset misuse has increased each year. This condition is not much different from the phenomenon that occurs in Indonesia. Considering that the misuse of assets is very prone to be committed by parties who have the authority in a strategic position, the misuse of assets is also likely to occur in every division line of a company. This can be seen from the many cases of misuse of assets that have occurred, as in several cases found in holding companies in Central Java.

The emergence of an opportunity for asset misuse at Holding Companies in Central Java is caused by the existence of a centralized corporate financial policy and does not yet have a superior internal control system. The follow-up to this policy is that all divisions have the responsibility to authorize the delivery of cash proceeds from receipts and expenses expenses to the head office. In this case, each of the company divisions has a role as a revenue center, so that each division is responsible for the revenue target each year.

Based on the study of the new fraud triangle theory developed by Kassem and Higson (2012), there are four elements that motivate someone to commit fraud. The four elements consist of one main element, namely ability, and three elements as supporting elements, namely pressure, opportunity, and integrity. Furthermore, Kassem and Higson explained that the elements of pressure can be financial and non-financial, each of which has different sources.

Several previous studies have examined the factors that influence fraudulent acts of misuse of assets. Research conducted by Abdullahi and Mansor (2017), (Ambarwati & Handayani, 2018) and Purnamasari and Oktaroza (2015) shows that pressure, opportunity and rationalization have a positive effect on the tendency of fraudulent asset misuse. Meanwhile, the same research was also conducted by Bakri et al., (2017), but used integrity as a moderating variable. The results show that the fraud triangle element has a positive effect on asset misappropriation. Meanwhile, integrity has a negative effect on asset misuse and cannot be moderated by integrity.

The above research focuses more on the use of the fraud triangle element perspective as a basis for examining the factors that influence asset misuse. In this study, it focuses more on the use of the new fraud triangle theory perspective with the dimensions of pressure, ability, opportunity and integrity. This study seeks to provide new empirical evidence regarding the factors that influence asset abuse when viewed from the perspective of the new fraud triangle theory. The increasing cases of fraudulent asset misappropriation from year to year encourage academics to examine more deeply what factors are influencing, so that it can be used as a basis / basis for following up and minimizing the possibility of this risk.

The purpose of this study is to analyze (1) whether the financial pressures experienced by a person will affect the tendency to misuse assets (2) whether the non-financial pressures experienced by someone will affect the tendency to misuse assets (3) whether one's opportunities will affect the tendency misuse of assets (4) Does the ability (capability) of a person will affect the tendency of misuse of assets (4) Does the integrity of a person affect the tendency of misuse of assets.

2. Literature Review and Hypothesis Development

2.1. Asset Misappropriation

According to (Tuanakotta, 2010) misuse of assets is a form of fraud committed by illegally taking cash, possessing goods or assets of an organization illegally and embezzling goods to enrich oneself or others. Asset misappropriation according to ACFE Global is divided into two forms, namely cash and inventory and all other assets. The misuse of assets in the form of cash occurs under several schemes consisting of skimming, Larceny, and Fraudulent disbursement. There are at least several ways to do this, including through a billing scheme, payroll scheme, Expense reimbursement schemes, Check tampering and Register disbursement. Meanwhile, the misuse of assets in the form of inventory and all other assets is the misuse of assets by exploiting, stealing or embezzling other assets other than cash in the organization. The scheme consists of larceny and misuse.

2.2. New Fraud Triangle Theory

Kassem and Higson proposed the new triangle fraud theory in 2012. This model criticizes Cressey's Fraud Theory, especially the ratio analysis factor and pressure, the two models cannot stand alone. The cheating theory of the new triangle model explains that there are four components that trigger someone to commit cheating, namely: integrity, ability, motivation / pressure, and opportunity. Based on previous studies of fraud theory and ideas that have emerged, (Kassem & Higson, 2012) proposes a fraud model as follows:



Pressure in the act of fraud can be classified into three parts, namely: personal pressure, corporate pressure and external pressure, and each pressure is divided into financial pressure and non-financial pressure. Kassem and Higson (2012) support the capability factor in the fraud diamond theory proposed by (Wolfe & Hermanson, 2004).

Integrity is something that is comprehensive, and in perfect condition, there is no damage or disability related to one's morals (Kassem & Higson, 2012). A person who has high integrity will be honest and do the best things from a moral point of view; on the other hand, someone with low integrity will ignore morality in carrying out his daily actions, want to cheat, be selfish, and do not care about others.

The opportunity is determined by factors outside a person's individual, for example, the culture of the work environment, the company's control system, the accounting system / control of corporate transactions, and others. A new work environment culture, poor control systems and corporate accounting systems will provide a great opportunity for someone to commit fraud (Kassem & Higson, 2012).

2.3. Research Hypothesis

The Effect of Financial Pressure on the Tendency to Misappropriate Assets

Based on the new fraud triangle theory, one of the factors that influence a person to commit an act of fraud is pressure. Financial pressure is a condition where a person is having the urge to take deviant actions when experiencing financial difficulties caused by conditions that cause a person to experience psychological pressure. This condition of psychological pressure can lead to bold actions that are against the law. This is evidenced by research conducted by Purnamasari and Oktaroza (2015), Kazimean et.al., (2018) and Abdullahi and Mansor (2017) that someone who has pressure tends to be easier and prone to commit acts of asset misuse. Furthermore, the results of research conducted by (Murdock, 2008) (Rae & Subramaniam, 2008)

(Ambarwati & Handayani, 2018) state that financial pressure can encourage someone to commit fraud within the company. Based on the above study, the first hypothesis in this study is as follows:

H1: Financial pressure has a positive effect on the tendency of asset misappropriation

The Effect of Non-Financial Pressure on the Tendency to Misappropriate Assets

Non-financial pressure is a condition where a person is experiencing difficulties in terms of work and other social conditions. According to Kassem and Higson (2012), these non-financial pressures are related to discipline, competition, work environment, and employee greed. High discipline in the company can cause employees to feel pressured, furthermore if there are penalties imposed if employees commit disciplinary violations or employees are unable to fulfill the rules that have been set, including the targets set by the company. Based on the new fraud triangle theory, non-financial pressure as reflected in discipline, punishment and high targets in the company can cause employees to feel pressured. This has an impact on the inability to cope with work so that it has the potential to commit an act of fraud. This is evidenced by research conducted by (Murdock, 2008) that non-financial pressure can encourage someone to commit fraud. Based on the results of the study above, the second hypothesis in this study is as follows:

H2: Non-financial pressure has a positive effect on the tendency of asset misappropriation

Effect of Opportunity on Tendency to Misappropriate Assets

Based on the new fraud triangle theory, one of the factors that causes someone to commit fraud is the opportunity. Opportunities arise because of the weak internal control system in the company. Companies that have a weak internal control system will have an impact on the perception of opportunities owned by employees so that it will increase the occurrence of fraud. (Albrecht et al., 2011) in the Diamond Fraud theory states that the higher the opportunity, the higher the possibility of fraud. Furthermore, Purnamasari and Oktaroza (2015), Kazimean et.al., (2018), Said et al., (2017) and Bakri et al., (2017) state that opportunity has a positive effect on the act of misappropriating assets. Based on the results of the study above, the third hypothesis in this study is as follows:

H3: Opportunity has a positive effect on the Tendency to Misappropriate Assets

The Influence of Ability on the Tendency to Misappropriate Assets

The position of a person in the company is directly proportional to the level of authority in operating the company. The high position is also attached to a power, duty and function in the company. This makes a person have great authority that can enable someone to support any action. Both in decision-making and in determining policies that tend to favor one's own interests. As explained by Wolfe and Hermanson (2004) that a person's position and function affect the act of fraud. Based on the perspective of the new fraud triangle theory, an act of fraud will be easier to do if it has the ability to carry out its actions. Supported by a high position in a company will make a person have the ability and a good understanding of the weaknesses that exist in the company. They will also know how to avoid the risk of prosecution in the event of fraud. This is supported by research conducted by Purnamasari and Oktaroza (2015) showing

that a person's ability has a positive effect on employee actions to abuse assets. From the results of the statements above, the fourth research hypothesis is:

H4: Ability will have a positive effect on the tendency of asset misappropriation

Effect of Integrity on Tendency to Misappropriate Assets

According to Webster's New World Dictionary, integrity is the moral quality and honesty of a person. Someone who has high morality will always try to uphold the truth or honesty that they believe in, even though they are faced with unfavorable conditions. Based on the perspective of the new fraud triangle theory, a person's level of integrity determines his actions in committing fraud. Jensen (2011), (Chen et al., 2013) and Kassem and Higson (2012) prove that someone who has high integrity will be honest and stay away from fraud and vice versa (Jensen, 2011) in their analysis shows the influence of integrity on earnings management. (Chen et al., 2013) examined executive integrity against financial statement fraud. The study (Chen et al., 2013) shows that the low integrity of executives tends to manipulate financial statements. Based on the description above, the fifth research hypothesis is:

H5: Integrity has a Positive Effect on the Tendency to Misappropriate Assets

3. Research methods

This research was designed as a survey with respondents from Perusahaan Holding in Semarang. The population was all the employee that member of Holding Company. Respondents filled out questionnaires *are employees who have the authority to carry out certain tasks or positions, and the number of samples is proportional to each company. The data were obtained by distributing questionnaires to 88 employees.* Most respondents filled out the questionnaire correctly and adequately according to the directions. The results were that 88 questionnaires were completely filled in. In the questionnaire distributed, each statement provided four alternative answers: strongly agree (SS), agree (S), neutral (N), disagree (TS), and strongly disagree (STS).

3.1. Operational Definition and Measurement of Research Variables

Independent Variables

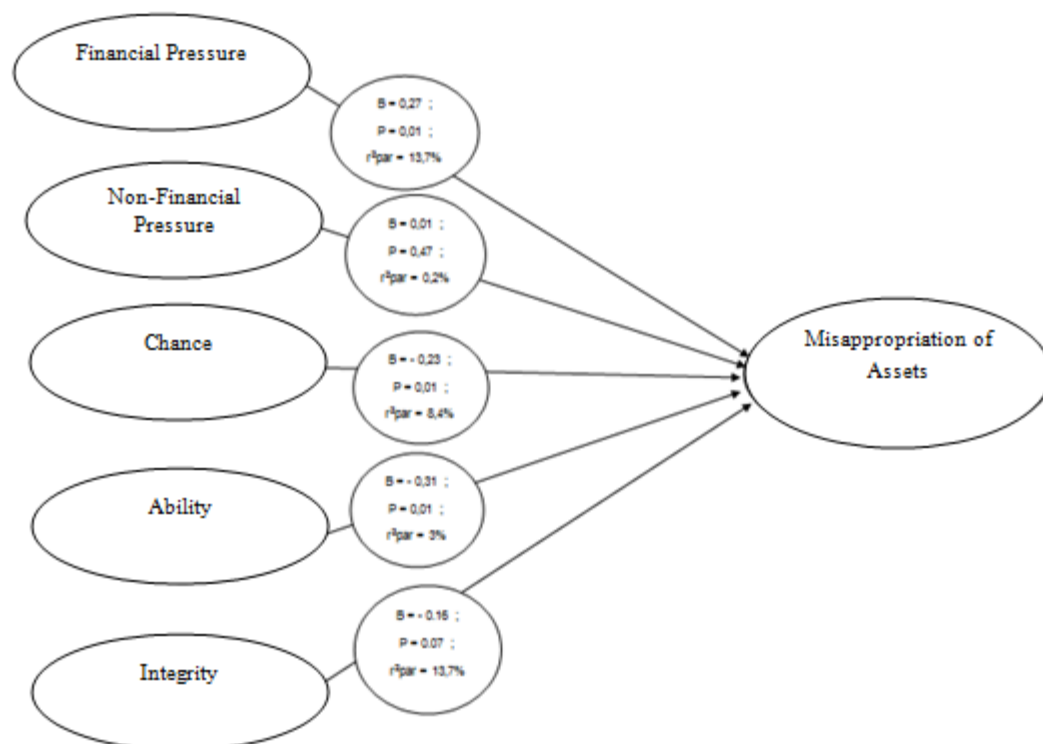
Financial pressure is the level of financial difficulty experienced by respondents. This level of difficulty will be approached from various desires, expectations, or targets for needs that must be met, from things that are basic needs to the needs of tertiary goods. Non-financial pressures are conditions other than financial that cause a person to be depressed, for example job dissatisfaction, competition, and others. Opportunity is measured by the level of transaction control. The level of transaction control is how far the company controls every transaction made by each employee. Ability is a condition of a person's ability seen from the position of office, and the ability to understand the weak points of company regulations, the ability to collude, and the ability to defend oneself. Integrity is a person's attitude in holding moral values that are believed to be true and upholding the values of honesty. This integrity will be detailed in questions that indicate the level of one's firmness in holding the values of truth and honesty with various levels of difficulty conditions faced.

Dependent Variable

Misappropriation of assets is an act of fraud committed by individuals by utilizing assets in the form of cash or non-cash from the company for their own interests by stealing, falsifying documents and records for personal gain, embezzling or misappropriating.

Data Analysis

The data analysis technique used in this research was regression analysis using Partial Least Square (PLS) model. This model used Structural Equation Modeling (SEM) for the model equation, commonly called PLS-SEM. This study also utilized WrapPLS 6.0 software to process and analyze research data.



4. Research Result and Discussion

Following are the research result with Wrap PLS 6.0 after testing the validity and reliability of each research variable. Statistically, the testing of the five hypotheses above can be explained in the following tables.

| Variables | Coefficients | P Value | Description |
|--------------------------------|--------------|---------|----------------------|
| Financial Pressure → Fraud | 0,269 | 0,004 | Significant (p< 5%) |
| Non-Financial Pressure → Fraud | 0,007 | 0,473 | insignificant (p>5%) |
| Chance → Fraud | -0,233 | 0,011 | Significant (p<5%) |
| Ability → Fraud | -0,307 | 0,001 | Significant (p<5%) |

| | | | |
|--|--------|-------|-----------------------------|
| Integrity → Fraud | -0,156 | 0,065 | insignificant ($p > 5\%$) |
| <i>Rule of Thumb p-value < 0,05</i> | | | |

Based on the table above, the following can be discussed:

- a. The results of the statistical test of the effect of financial pressure on the tendency of asset abuse show that the hypothesis is accepted, the p-value of 0.004 is smaller than the limit on the acceptance of variable relationships of 0.05. While the strength of the relationship between the two variables when viewed from the coefficient of determination is 13.7%. These results provide evidence that financial pressure has a positive effect on asset misappropriation. The findings explain that the higher the financial pressure experienced, the higher the risk of asset misappropriation by employees. This means that unstable financial conditions, when faced with difficult situations, will encourage someone to commit fraud. Financial pressure occurs due to external and internal conditions experienced by employees, namely when employees are in a condition of not having money, but at the same time having urgent needs because they are less able to manage finances, and a lifestyle that causes expenses to be greater than income. This causes unstable financial conditions and no savings for emergency funds. Financial pressure caused by internal and external conditions experienced by a person is at high risk for committing fraud. The results of this study are consistent with research (Albrecht et al., 2011) which states that 95% of fraud cases are driven by financial pressure. Purnamasari and Oktaroza (2015) and (Kazimean et al., 2018) in their research found that financial pressure has a positive effect on asset abuse.
- b. The results of statistical tests on the effect of non-financial pressure on the tendency of asset abuse show that the hypothesis is rejected, the p-value is 0.473, which is greater than the limit for acceptance of variable relationships of 0.05. While the strength of the relationship between the two variables, when viewed from the value of the coefficient of determination, it can be said that there is no effect at all, because the magnitude of the coefficient of determination is small, which is 0.2%. These results provide evidence that non-financial pressures have a negative effect on asset misappropriation. The findings explain that non-financial pressure experienced by employees does not affect the risk of asset abuse. These results indicate that the non-financial pressure experienced does not encourage employees to take actions to abuse assets. This is because non-financial pressures that are reflected in the demands of work faced with conditions of discomfort in the work environment, job dissatisfaction, and competition between employees do not encourage employees to commit fraudulent acts of asset abuse. High job demands may not make employees feel like they belong to the company which leads to no tendency to commit acts of asset abuse. The results of this study are in line with research conducted by (Said et al., 2017) which states that non-financial pressure has no effect on asset abuse. However, the results of this study are inconsistent with the results of previous studies conducted by (Diany & Ratmono, 2014), Purnamasari and Oktaroza (2015), Abdullahi and Mansor (2017), Bakri et al., (2017), (Ambarwati & Handayani, 2018) and Kazimean et. al., (2018) because the working environment conditions of each research object are different.
- c. The results of the statistical test of the effect of opportunity on the tendency of asset abuse show that the hypothesis is accepted, the p-value of 0.011 is smaller than the limit on the acceptance of the variable relationship of 0.05. Meanwhile, the strength of the relationship

between the two variables when viewed from the value of the coefficient of determination can be said to be not so large, because the magnitude of the coefficient of determination is 8.4%. These results provide evidence that opportunity has a positive effect on the tendency of asset abuse. The findings explain that the greater the opportunity, the greater the opportunity to commit fraudulent acts of asset abuse. This means that the opportunity to commit fraudulent acts of asset abuse exists due to a lack of supervision or a weakening of the internal control system. So that when internal control is not effective in carrying out its duties, opportunities to take advantage of existing opportunities to abuse assets can occur. This is supported by the statement of Hooper and Pornelli (2010) that even though extreme pressure occurs, financial fraud cannot occur unless there is an opportunity. The results of this study are supported by research conducted by Dellaportas (2013) that opportunity is a very significant contributing factor to the occurrence of fraudulent asset abuse. Said et al., (2018) also stated that opportunities arise when employees recognize opportunities to commit fraud without being detected. The results of this study are consistent with research conducted by (Diany & Ratmono, 2014), (Purnamasari & Oktaroza, 2015), Abdullahi and Mansor (2017), (Bakri et al., 2017), Kazimean et. al., (2018) which states that opportunity has a positive effect on asset misappropriation.

- d. The results of statistical tests on the effect of ability on the tendency to cheat indicate that the results of the hypothesis are accepted. The p-value is 0.001 and this p-value is smaller than the limit on the acceptance of variable relationships of 0.05. The strength of the relationship between the two variables when viewed from the coefficient of determination is 15.5%. These results provide evidence that ability has a positive effect on the tendency of asset abuse. The findings explain that the higher the employee's ability, the higher the risk of fraudulent acts of misappropriation of assets. That is, when employees have the ability to argue, experience in managing a business, then the employee will know the weaknesses of the company. The ability to argue will support employees in making alibis, the ability to find weak points will be used by employees to find gaps in company policies that favor their personal interests. This knowledge and experience will increase the ability of employees to know the ins and outs of the company. The ability that is formed from experience and knowledge tends to increase the risk of collusion. Collusion by each employee to work together to support the misuse of assets. This will make fraud more difficult to detect. The results of this study are consistent with research conducted by (Purnamasari & Oktaroza, 2015), and (Bakri et al., 2017), (Kazimean et al., 2018) that ability has a positive effect on asset abuse.
- e. The results of statistical tests on the influence of integrity on the tendency of asset abuse show a p-value of 0.065, this shows that the hypothesis of the influence of integrity on the tendency of asset abuse is rejected. The results of this study are consistent with research conducted by (Bakri et al., 2017) which states that integrity has a negative relationship with asset abuse. These results provide evidence that integrity has a negative effect on the tendency of asset abuse. This means that integrity as measured by the level of one's firmness in holding the values of truth and honesty is not a factor that causes employees to tend to abuse assets. The item used to describe the proxy of honesty in this study is something related to the values of honesty, morality and obedience. Integrity has no effect on asset misappropriation, possibly because the tendency to be dishonest does not become a trigger for asset misappropriation.

This means that although employees are dishonest, disobedient and do not uphold moral values in carrying out their duties in accordance with the policies and directions of the leadership, this does not make employees commit fraudulent acts of asset abuse.

5. Conclusion

Based on the research conducted, it can be concluded that the variables of financial pressure, opportunity and ability have a positive and significant effect on the asset misappropriation. Meanwhile, the variable data non-financial pressure, integrity did not affect asset misappropriation.

6. Recommendation

The sample used in further research is recommended to use sample from another company. Also, the variables employed in future research can be added with several external variables that affect users conditions.

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