

Why Fraud Risk Does Not Necessarily Lead to Fraud: Moral Justification as the Missing Cognitive Mechanism in Public Organizations

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ABSTRACT

Fraud remains a persistent governance challenge in public organizations, indicating that exposure to fraud-risk conditions does not necessarily translate directly into fraudulent intentions. This study examines fraud risk does not necessarily lead to fraud: mechanism linking fraud-risk factors to Moral justification as the missing cognitive fraud intention among financial-management officials of Regional Government-Owned Enterprises (BUMDs) in North Maluku, Indonesia. Using a quantitative explanatory design and cross-sectional survey, data from 369 BUMD officials were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that pressure ($b = 0.197$, $p < 0.001$), opportunity ($b = 0.197$, $p < 0.001$), and arrogance ($b = 0.215$, $p = 0.032$) significantly and positively influence moral justification, while capability is not significant ($b = 0.071$, $p = 0.382$) and rationalization is marginally significant ($b = 0.248$, $p = 0.084$). Moral justification strongly predicts fraud intention ($b = 0.848$, $p < 0.001$). It also significantly mediates the relationships between opportunity and fraud intention ($b = 0.163$, $p < 0.001$) and between arrogance and fraud intention ($b = 0.181$, $p = 0.032$), while the mediation effects of pressure and rationalization are marginal and capability is not significant. The findings highlight the importance of addressing the cognitive processes through which organizational fraud risks are morally legitimized.

Keywords: Fraud Intention; Fraud Pentagon Theory; Moral Disengagement; Moral Justification; Public Organizations

JEL Classification: D73; M14; M48

INTRODUCTION

Fraud remains one of the most serious governance failures affecting public and private organizations worldwide. Despite substantial investments in internal controls, digital governance, external audits, forensic technologies, artificial intelligence, and anti-corruption reforms, fraudulent practices continue to undermine accountability, financial sustainability, institutional legitimacy, stakeholder confidence, and public trust.

Occupational fraud is estimated to cause organizations losses equivalent to approximately five percent of their annual revenue ([Association of Certified Fraud Examiners \[ACFE\], 2024](#)), demonstrating that fraud is a persistent organizational phenomenon rather than an isolated accounting irregularity ([Free, 2015](#)). This persistence indicates that sophisticated governance and monitoring mechanisms remain insufficient because organizational decisions also depend on human judgment, ethical reasoning, and individual cognitive processes.

Indonesia, particularly its Regional Government-Owned Enterprises (BUMDs), provides a relevant setting for examining this problem. The Indonesian government has strengthened risk-based internal auditing, integrated public financial-management systems, electronic governance, and anti-corruption regulations. Nevertheless, corruption and financial fraud continue to occur across ministries, local governments, and BUMDs. These enterprises operate under commercial objectives, public-service responsibilities, political intervention, regulatory complexity, and multiple stakeholder expectations. Individuals exposed to similar organizational pressures and control environments may also demonstrate different ethical responses. Therefore, structural reforms and stronger internal controls alone cannot fully explain why fraud persists or why comparable organizational conditions produce different levels of fraud intention.

Fraud research developed from Fraud Triangle Theory (pressure, opportunity, and rationalization) ([Cressey, 1953](#)), through Fraud Diamond Theory (capability) ([Wolfe & Hermanson, 2004](#)), to the extended fraud-risk framework incorporating arrogance ([Vousinas, 2019](#)). Yet findings for opportunity, capability, rationalization, and arrogance vary across countries and institutions. This inconsistency reveals a gap: structural fraud theories identify risk conditions but insufficiently explain the psychological process that converts them into unethical intentions.

Moral Disengagement Theory explains that individuals may temporarily deactivate moral self-regulation by cognitively reconstructing misconduct as necessary, acceptable, or beneficial, thereby reducing guilt, shame, and ethical conflict ([Bandura, 1999](#)). Although this theory has been widely applied in behavioral ethics and organizational psychology, moral justification remains insufficiently examined as a mechanism connecting Fraud Pentagon dimensions with fraud intention. Accordingly, this study integrates Fraud Pentagon Theory and Moral Disengagement Theory by positioning moral justification as a mediating cognitive mechanism. Its novelty lies in shifting fraud research from a predominantly structural explanation toward a behavioral perspective. The study extends fraud theory, enriches behavioral accounting and business ethics literature, and suggests that BUMDs should combine internal controls with ethical leadership, organizational integrity, and moral accountability.

LITERATURE REVIEW

Organizational Governance and the Persistence of Fraud

Governments increasingly use digital governance, integrated systems, data analytics, and internal controls to strengthen transparency. Yet persistent fraud shows that governance technology alone cannot eliminate misconduct (ACFE, 2024; Free, 2015). Because employees under similar controls may make different ethical decisions, fraud prevention must address both structural safeguards and the cognition through which organizational conditions are interpreted.

This issue is salient in BUMDs, which combine commercial performance, public service, regulatory compliance, and political responsiveness. These competing demands can make misconduct appear defensible as a means of protecting organizational interests; therefore, fraud in BUMDs requires an explanation connecting organizational risk with individual moral cognition.

Fraud Pentagon Theory and Its Behavioral Limitations

Fraud Triangle Theory identifies pressure, opportunity, and rationalization (Cressey, 1953); Fraud Diamond Theory adds the capability to exploit weaknesses (Wolfe & Hermanson, 2004); and later frameworks incorporate arrogance and coordinated misconduct (Crowe, 2011; Vousinas, 2019). These developments broaden risk identification but remain primarily structural.

Structural theories explain when fraud becomes possible but less clearly how risk becomes intention. Inconsistent findings across settings indicate that exposure does not automatically produce misconduct; individuals first interpret circumstances through ethical reasoning, values, and social norms.

Moral Justification as the Cognitive Mechanism

Moral Disengagement Theory explains how individuals temporarily deactivate moral self-regulation and reduce guilt or ethical conflict (Bandura, 1999). Moral justification is central because it reconstructs misconduct as necessary or beneficial, for example, to protect performance, employment, or public services, and thereby lowers resistance to fraud.

Moral justification differs from rationalization: rationalization supplies excuses that reduce discomfort, whereas moral justification changes an act's perceived moral status by attaching it to a worthy purpose. Process-based research shows that this reconstruction can make a specific unethical act appear defensible (Schaefer & Bouwmeester, 2021), explaining why similar risks produce different intentions.

Extending Fraud Pentagon Theory

This study integrates the extended fraud-risk framework with Moral Disengagement Theory by positioning moral justification between pressure, opportunity, capability, rationalization, arrogance, and fraud intention. Risk factors identify circumstances that motivate or enable misconduct; moral justification explains how those circumstances become ethically acceptable courses of action. This behavioral extension therefore clarifies variation in the effects of organizational fraud risks.

The integration does not reject structural risk factors; it specifies the cognitive pathway through which they may operate and provides a more complete account of fraud intention in public enterprises.

Hypotheses Development

Pressure and Moral Justification

Pressure may arise from financial difficulties, unrealistic performance targets, political intervention, job insecurity, regulatory demands, or expectations to achieve organizational objectives with limited resources. However, employees experiencing similar pressures do not necessarily exhibit the same ethical responses. Moral Disengagement Theory suggests that pressure increases the tendency to portray misconduct as necessary to protect organizational performance, employment, or institutional interests (Bandura, 1999).

Evidence from Indonesian public procurement demonstrates that pressure increases fraudulent behavior and shapes the reasoning used to neutralize ethical concerns (Rustiarini et al., 2019). Experimental evidence also indicates that pressure increases fraud intention when individuals can cognitively legitimize their conduct (Utami et al., 2019). Organizational pressure may consequently narrow ethical attention and make self-exonerating narratives more accessible (Newman et al., 2020). Evidence also identifies pressure as an intrapersonal condition associated with fraud and emphasizes that employees' interpretations shape how such pressure is understood (Ar'Reza et al., 2020).

H1: Pressure positively influences moral justification.

Opportunity and Moral Justification

Opportunity refers to organizational conditions that facilitate fraud because weaknesses in controls and oversight reduce the perceived probability of detection (Cressey, 1953). Nevertheless, control deficiencies do not inevitably produce fraud because individuals may choose not to exploit them. Opportunity becomes behaviorally influential when employees interpret weak monitoring, ambiguous responsibility, or limited detection as organizational tolerance for misconduct.

Experimental studies show that high-opportunity conditions increase fraudulent behavior, although their effects depend on individuals' psychological interpretations of the situation (Rustiarini et al., 2019; Utami et al., 2019). Weak controls may therefore provide both the means to commit fraud and the cognitive basis for claiming that the conduct is tolerated or causes minimal harm (Moore et al., 2012). Consistent evidence shows that weak supervision and control gaps create perceived opportunities for fraud, while effective government controls and an ethical culture strengthen prevention (Ar'Reza et al., 2020; Ulfah et al., 2024).

H2: Opportunity positively influences moral justification.

Capability and Moral Justification

Capability comprises the competence, authority, confidence, access, and technical knowledge required to exploit and conceal organizational weaknesses (Wolfe & Hermanson, 2004). Capability does not inherently lead to misconduct because professional competence may also strengthen compliance and awareness of legal consequences. It becomes ethically consequential when individuals use their expertise to present questionable conduct as efficient, necessary, or beneficial to the organization. Experimental evidence identifies capability as a determinant of fraud intention alongside pressure, opportunity, and rationalization (Utami et al., 2019). Moral disengagement research further indicates that personal and situational resources may facilitate unethical conduct when internal moral sanctions are cognitively weakened (Moore et al., 2012; Newman et al., 2020). Other studies further show that competence, access, professional skepticism, and internal-audit roles affect the capacity to recognize and manage fraud

risks, confirming that capability can be directed toward either control or misconduct (Waromi et al., 2024; Wuryandini et al., 2022).

H3: Capability positively influences moral justification.

Rationalization and Moral Justification

Rationalization enables individuals to reduce the psychological discomfort associated with misconduct by portraying it as temporary borrowing, deserved compensation, or a response to unfair organizational treatment (Cressey, 1953). Moral justification extends this process by reconstructing unethical conduct as serving a legitimate or morally defensible purpose.

Research on Indonesian public procurement shows that perpetrators may rationalize misconduct by displacing responsibility and minimizing personal accountability (Rustiarini et al., 2019). Process-based moral disengagement theory similarly explains that cognitive reconstruction can transform the perception of an act from unethical to acceptable or necessary (Schaefer & Bouwmeester, 2021). Individuals who readily rationalize misconduct are therefore expected to demonstrate stronger moral justification. Ar'Reza et al. (2020) similarly describe rationalization as justification formed before fraud, such as minimizing the amount involved, promising repayment, or referring to comparable conduct by coworkers.

H4: Rationalization positively influences moral justification.

Arrogance and Moral Justification

Arrogance reflects excessive confidence, entitlement, and the belief that organizational rules do not apply equally to everyone (Crowe, 2011). Individuals with high levels of arrogance may consider themselves authorized to override governance requirements and portray self-serving decisions as exceptional responses to organizational needs.

Fraud Pentagon research suggests that arrogance weakens respect for organizational controls and increases the perceived legitimacy of managerial discretion (Sari et al., 2022). Moral disengagement may consequently provide the cognitive pathway through which arrogance is translated into unethical conduct (Moore et al., 2012; Newman et al., 2020). Although arrogance was not examined directly, evidence that ethical culture and formal control systems strengthen fraud prevention supports the importance of organizational norms in constraining entitlement-based justifications (Ulfah et al., 2024).

H5: Arrogance positively influences moral justification.

Moral Justification and Fraud Intention

Moral justification enables individuals to reconstruct fraud as necessary, acceptable, or beneficial, thereby weakening moral self-sanctions (Bandura, 1999). Prior studies identify moral disengagement as a proximal predictor of unethical workplace behavior (Moore et al., 2012; Newman et al., 2020; Schaefer & Bouwmeester, 2021), and Çollaku et al. (2025) specifically associate moral justification with fraud intention among accounting professionals. Therefore, H6 proposes that moral justification positively influences fraud intention. Related findings show that ethical culture and institutional control mechanisms are important for preventing fraud, reinforcing the expectation that moral interpretations influence whether organizational risks become unethical intentions (Ulfah et al., 2024).

Moral Justification as a Mediator Between Pressure and Fraud Intention

Pressure from targets, budgets, political intervention, job insecurity, resource constraints, and conflicting BUMD obligations may motivate fraud but does not determine a uniform ethical response (Cressey, 1953). Moral Disengagement Theory predicts that employees can justify misconduct as protecting employment, performance, or public services (Bandura, 1999). Evidence links pressure with fraud and shows moral disengagement mediating demanding work conditions and unethical behavior (Rustiarini et al., 2019; Utami et al., 2019; Zhang et al., 2023; Zhao et al., 2022). Thus, moral justification may convert pressure into fraud intention.

Through moral justification, pressure is reframed from a constraint into a defensible means of protecting organizational goals. This mechanism explains why similar demands produce different intentions and supports the proposed indirect relationship without assuming that pressure automatically results in fraud. This pathway is also compatible with Evidence that pressure is interpreted internally before it becomes relevant to fraudulent conduct (Ar'Reza et al., 2020).

H7a: Moral justification mediates the relationship between pressure and fraud intention.

Moral Justification as a Mediator Between Opportunity and Fraud Intention

Opportunity arises when weak controls, supervision, and accountability make fraud feasible and detection unlikely, yet many employees do not exploit available weaknesses (Cressey, 1953). Moral justification can transform weak oversight into perceived tolerance, minimal harm, or permission to act (Bandura, 1999). Studies associate opportunity with fraud under weak controls and show that situational conditions become behaviorally relevant after moral sanctions are neutralized (Moore et al., 2012; Newman et al., 2020; Rustiarini et al., 2019; Schaefer & Bouwmeester, 2021; Utami et al., 2019).

Opportunity may influence fraud intention when individuals morally reinterpret the exploitation of weak controls as acceptable. Employees may perceive ineffective monitoring as implicit organizational tolerance, minimize the potential harm caused by their actions, or believe that using available opportunities is justified by unfair treatment or unmet organizational obligations. Moral justification therefore converts an objective opportunity into a subjectively acceptable course of action. This mechanism is consistent with Moral Disengagement Theory, particularly the cognitive reconstruction and distortion-of-consequences mechanisms described by Bandura (1999). The other studies support this sequence by identifying weak oversight as a source of perceived fraud opportunity and ethical culture as a condition that strengthens the preventive effect of internal controls (Ar'Reza et al., 2020; Ulfah et al., 2024).

H7b: Moral justification mediates the relationship between opportunity and fraud intention.

Moral Justification as a Mediator Between Capability and Fraud Intention

Capability comprises the knowledge, authority, confidence, access, and technical competence needed to execute and conceal fraud (Wolfe & Hermanson, 2004), but competence can also strengthen compliance. Capable individuals may use expertise to portray manipulation as a necessary adjustment or efficient organizational solution. Prior research associates capability with fraud intention, while moral-disengagement studies show that personal resources facilitate misconduct when moral sanctions are weakened (Moore et al., 2012; Newman et al., 2020; Schaefer & Bouwmeester, 2021; Utami et al., 2019).

From the perspective of Moral Disengagement Theory, capable individuals may employ their knowledge and authority to construct convincing explanations that legitimize

misconduct. They may portray manipulation as a technically necessary adjustment, an efficient solution to organizational problems, or a temporary action intended to protect institutional interests. Capability can therefore facilitate not only the execution of fraud but also the production of sophisticated moral narratives that reduce personal accountability and anticipated guilt. Evidence on internal auditors likewise indicates that competence and access become constructive when embedded in professional roles, skepticism, and fraud-management responsibilities (Waromi et al., 2024; Wuryandini et al., 2022).

H7c: Moral justification mediates the relationship between capability and fraud intention.

Moral Justification as a Mediator Between Rationalization and Fraud Intention

Rationalization reduces discomfort by characterizing fraud as temporary borrowing, deserved compensation, retaliation, or harmless conduct (Cressey, 1953), whereas moral justification attaches misconduct to a legitimate purpose. An employee may move from a concrete excuse to claiming that manipulation protects jobs, services, or organizational continuity. Procurement and process-based evidence shows that rationalization, responsibility displacement, and moral reconstruction can operate as related but distinct stages of unethical conduct (McCormack & Chowdhury, 2024; Rustiarini et al., 2019; Schaefer & Bouwmeester, 2021). This proposed sequence accords with evidence describing rationalization as a justification that precedes fraudulent action (Ar'Reza et al., 2020).

H7d: Moral justification mediates the relationship between rationalization and fraud intention.

Moral Justification as a Mediator Between Arrogance and Fraud Intention

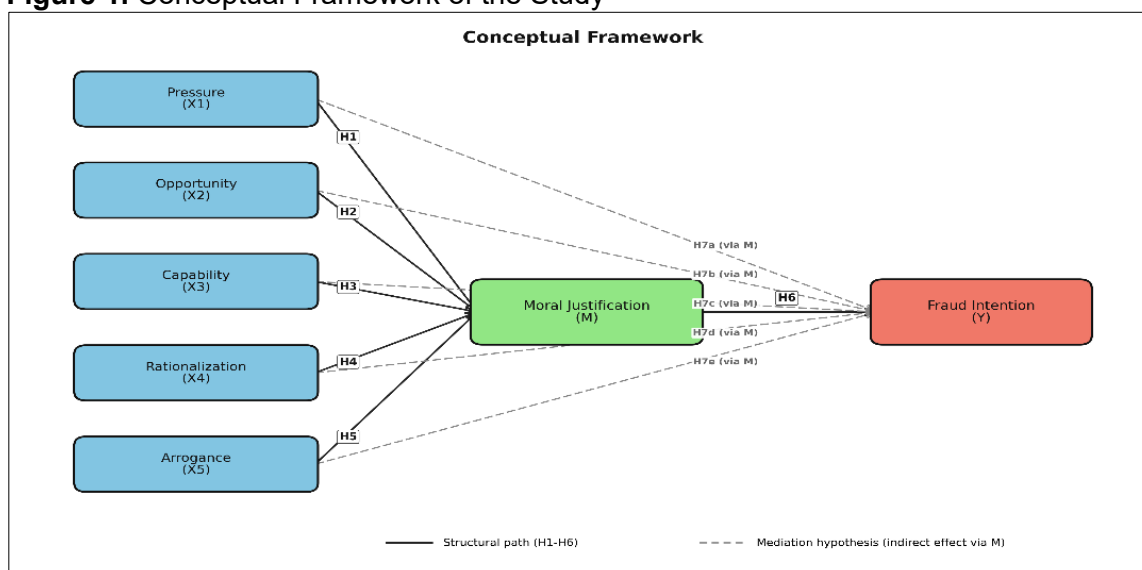
Arrogance reflects confidence, entitlement, superiority, and perceived exemption from rules (Crowe, 2011), but it must still be reconciled with moral identity. Moral justification allows exceptional authority or discretion to be presented as a legitimate organizational intervention. Evidence links arrogance with weakened compliance and shows that self-focused dispositions and entitlement can foster moral disengagement and fraud intention through cognitive legitimization (Çollaku et al., 2025; Moore et al., 2012; Sari et al., 2022; Zhao et al., 2022). The findings on ethical culture and compliance systems further suggest that organizational norms can either constrain or enable the narratives through which discretionary conduct is legitimized (Ulfah et al., 2024).

H7e: Moral justification mediates the relationship between arrogance and fraud intention.

Conceptual Framework

The conceptual framework positions pressure, opportunity, capability, rationalization, and arrogance as antecedents of moral justification (H1-H5), moral justification as an antecedent of fraud intention (H6), and moral justification as the mediator of each antecedent-fraud intention relationship (H7a-H7e). Figure 1 presents the model.

Figure 1. Conceptual Framework of the Study



RESEARCH METHOD

Research Design

This study employed a quantitative, explanatory design and a cross-sectional survey to examine the associations among organizational fraud-risk conditions, moral justification, and fraud intention. The model integrates Fraud Pentagon Theory with Moral Disengagement Theory by positioning moral justification as the cognitive mechanism through which fraud-risk conditions may be associated with fraud intention. Because the design captures perceptions at one point in time, the estimated paths are interpreted as statistical associations and indirect relationships rather than definitive causal effects.

The unit of analysis was an official involved in BUMD financial management, accounting, reporting, auditing, budgeting, or internal control in North Maluku Province.

Population, Sampling, and Data Collection

Purposive sampling targeted BUMD managers, accounting officers, finance staff, internal auditors, and other employees with direct knowledge of financial management and control processes. Eligibility required active involvement in at least one relevant function. Data were collected in June 2025 through a Google Form distributed after coordination with participating BUMDs. Respondents received information on the study purpose, voluntary participation, confidentiality, and academic use of data before giving consent. Of 375 questionnaires distributed, 369 were returned complete and usable; six were not returned. The usable response rate was 98.4%, and the sample exceeded conventional requirements for the estimated PLS-SEM model (Hair et al., 2022).

Instrument Development, Adaptation, and Pilot Testing

The broader research instrument initially contained 47 indicators. The final model comprised 35 retained indicators across pressure, opportunity, capability, rationalization, arrogance, moral justification, and fraud intention, after indicators that did not meet the measurement criteria were removed.

Pressure, opportunity, and rationalization were adapted from Fraud Triangle research; capability from Fraud Diamond research; and arrogance from extended fraud-risk literature (Cressey, 1953; Vousinas, 2019; Wolfe & Hermanson, 2004). Moral justification was grounded in Moral Disengagement Theory (Bandura, 1999; Moore et al., 2012), while fraud intention measured willingness to manipulate financial information or misuse

authority. All items used a seven-point scale from 1 (strongly disagree) to 7 (strongly agree).

The adaptation procedure involved reviewing the conceptual meaning of each source construct, translating and contextualizing the wording for Indonesian BUMD financial-management activities, and examining the statements for content relevance, linguistic clarity, redundancy, and sensitivity. The questionnaire was reviewed before field administration and pilot-tested with 67 students who had studied auditing. The pilot participants were used to assess readability and preliminary instrument clarity and were not included in the BUMD sample. Construct validity and reliability for hypothesis testing were subsequently evaluated using the responses from the target population.

Construct Operationalization

Table 1. Construct Operationalization Based on the Complete Research Instrument

Construct	Operational Definition	Scale/Source
Pressure	Organizational, occupational, or personal demands that may encourage consideration of misconduct.	7-point Likert; Cressey (1953); Vousinas (2019)
Opportunity	Weaknesses in controls, supervision, auditing, or procedures that make misconduct feasible.	7-point Likert; Cressey (1953); Vousinas (2019)
Rationalization	Explanations used to excuse misconduct or reduce psychological discomfort concerning it.	7-point Likert; Cressey (1953); Vousinas (2019)
Capability	Skills, experience, authority, and access that enable the execution or concealment of misconduct.	7-point Likert; Vousinas (2019); Wolfe and Hermanson (2004)
Arrogance	A sense of superiority, entitlement, or exemption from organizational rules and procedures.	7-point Likert; Vousinas (2019)
Moral Justification	Cognitive reconstruction of misconduct as acceptable, necessary, or beneficial to others or the organization.	7-point Likert; Bandura (1999); Moore et al. (2012)
Fraud Intention	Willingness or perceived likelihood of manipulating financial information or misusing authority when circumstances permit.	7-point Likert; behavioral-intention research

Table 1 presents the operationalization of the constructs used in the study. The fraud-related factors are measured based on Fraud Pentagon Theory, comprising pressure, opportunity, rationalization, capability, and arrogance, with moral justification included as the proposed cognitive mediator. Pressure refers to organizational, occupational, or personal demands that may encourage misconduct, while opportunity reflects weaknesses in controls, supervision, auditing, or procedures that enable misconduct. Rationalization captures the explanations used to justify or reduce psychological discomfort associated with misconduct. Capability represents the skills, experience, authority, and access that facilitate the execution or concealment of misconduct, whereas arrogance reflects a sense of superiority, entitlement, or exemption from organizational rules and procedures. Moral justification captures the cognitive reconstruction of misconduct as acceptable, necessary, or beneficial. Finally, fraud intention is operationalized as an individual's willingness or perceived likelihood of manipulating financial information or misusing authority when circumstances permit. All

constructs are measured using a 7-point Likert scale, with measurement definitions and sources adapted from Bandura (1999), Cressey (1953), Moore et al. (2012), Vousinas (2019), Wolfe & Hermanson (2004), and relevant behavioral-intention research.

Data Screening and Measurement-Model Assessment

Responses were screened for eligibility, completeness, duplication, and unusable patterns. The reflective measurement model was then assessed through indicator loadings, Cronbach's alpha, composite reliability, average variance extracted (AVE), and the heterotrait-monotrait ratio (HTMT) before structural testing.

Indicators with loadings below 0.50 were removed iteratively. The criteria were Cronbach's alpha above 0.60, composite reliability above 0.70, AVE above 0.50, and HTMT below 0.90 (Hair et al., 2022; Henseler et al., 2015). Retention decisions also considered content coverage rather than statistical thresholds alone.

PLS-SEM and Mediation Analysis

PLS-SEM was estimated in SmartPLS 4 because the model contains multiple latent constructs and indirect relationships and emphasizes prediction. Assessment included path coefficients, R-squared, adjusted R-squared, and bootstrapped direct and specific indirect effects (Hair et al., 2022; Shmueli et al., 2019).

Inference used nonparametric bootstrapping, two-tailed tests, and 95% confidence intervals. Effects were supported at $p < 0.05$; p -values between 0.05 and 0.10 were described as marginal, not conventionally significant. Because the verified number of bootstrap subsamples was unavailable in the source files, no value was invented.

RESULTS

Respondent Profile

Table 2. Questionnaire Distribution and Response Rate

Questionnaire Status	Frequency	Percentage (%)
Distributed	375	100
Not returned	6	1.6
Returned	369	98.4
Returned but unusable	0	0
Usable for analysis	369	98.4

Of 375 distributed questionnaires, 369 were returned complete and usable, and six were not returned, yielding a 98.4% usable response rate. No returned response was excluded (Table 2).

Descriptive Statistics

Table 3. Descriptive Statistics of Standardized Construct Scores

Construct	Median	Mean	Maximum
Pressure	0.327	0.000	2.710
Opportunity	-0.159	0.000	2.594
Capability	0.356	0.000	1.764
Rationalization	0.041	0.000	2.181
Arrogance	0.381	0.000	1.333
Moral justification	0.028	0.000	1.972
Fraud intention	-0.167	0.000	2.047

Standardized construct scores have means of approximately zero by construction. Pressure shows the broadest upper range, while medians vary modestly across

constructs; these figures describe the analytical scores and should not be interpreted as raw Likert-scale means (Table 3).

Measurement Model

The final sample comprised 369 BUMD financial-management officials in North Maluku Province. Detailed demographic frequencies are not reported because verified category-level data were unavailable in the source output; no demographic values were inferred.

The measurement model was evaluated using loadings, AVE, composite reliability, Cronbach's alpha, and HTMT. Indicators below the loading criterion were removed iteratively, reducing the broader instrument from 47 to 35 retained indicators. The source file did not contain a complete construct-level matrix of loadings, AVE, reliability, and HTMT; therefore, unverified values are not reproduced.

Structural Model

The model explains 77.5% of the variance in fraud intention ($R^2 = 0.775$; adjusted $R^2 = 0.768$) and 59.8% of the variance in moral justification ($R^2 = 0.598$; adjusted $R^2 = 0.589$), indicating substantial in-sample explanatory power.

Table 4. Direct-Effect and Hypothesis-Testing Results

Relationship	β	t	p	Decision
Pressure -> Fraud intention	0.220	5.043	0.001	Supported*
Opportunity -> Fraud intention	0.031	1.089	0.276	Not significant
Capability -> Fraud intention	0.137	1.450	0.147	Not supported
Rationalization -> Fraud intention	0.240	1.188	0.235	Not Supported
Arrogance -> Fraud intention	-0.107	3.290	0.001	Supported*
Pressure -> Moral justification	0.197	4.044	0.001	Supported*
Opportunity -> Moral justification	0.197	4.045	0.001	Supported*
Capability -> Moral justification	0.071	0.875	0.382	Not supported
Rationalization -> Moral justification	0.248	1.729	0.084	Supported**
Arrogance -> Moral justification	0.215	2.146	0.032	Supported*
Moral justification -> Fraud intention	0.848	28.595	0.001	Supported*

Note: * $p < 0.05$; ** $p < 0.10$ (marginal)

H1, H2, H5, and H6 were supported, while H3 was not supported and H4 received marginal support at the 10% significance level (Table 4). Pressure, opportunity, and arrogance were positively associated with moral justification, whereas capability was not significant and rationalization was only marginally significant. Moral justification had the strongest positive association with fraud intention ($\beta = 0.848$, $p < 0.001$), supporting H6. As additional direct-effect estimates beyond the prespecified hypotheses, pressure was positively associated with fraud intention, pressure was positively associated with fraud intention, while opportunity, capability, and rationalization were not significant; arrogance showed a significant negative association with fraud intention.

Moral Justification as the Key Predictor

Moral justification showed the strongest positive association with fraud intention ($\beta = 0.848$, $p < 0.001$), supporting H6. This coefficient indicates that higher moral justification corresponded with higher fraud intention after accounting for the other predictors.

Fraud Risk Factors and Moral Justification

Pressure ($\beta = 0.197$, $p < 0.001$), opportunity ($\beta = 0.197$, $p < 0.001$), and arrogance ($\beta = 0.215$, $p = 0.032$) were positively associated with moral justification. Capability was not significant ($\beta = 0.071$, $p = 0.382$), while rationalization was marginal ($\beta = 0.248$, $p = 0.084$). These estimates support H1, H2, and H5; H3 was not supported, and H4 received only marginal support at the 10% level. The results are interpreted against the prespecified significance criteria rather than as evidence of causal effects.

Mediation Analysis

Table 5. Specific Indirect Effects Through Moral Justification

Indirect Relationship	β	t	P-Value	Decision
Pressure -> Moral justification -> Fraud intention	0.077	1.781	0.075**	Marginally supported
Opportunity -> Moral justification -> Fraud intention	0.163	3.999	< 0.001*	Supported
Capability -> Moral justification -> Fraud intention	0.059	0.869	0.385	Not supported
Rationalization -> Moral justification -> Fraud intention	0.203	1.726	0.084**	Marginally supported
Arrogance -> Moral justification -> Fraud intention	0.181	2.149	0.032*	Supported

Note: * $p < 0.05$; ** $p < 0.10$ (marginal)

The specific indirect-effect analysis in Table 5 indicates that moral justification mediates several relationships between fraud-risk factors and fraud intention. The indirect effect of pressure was positive and marginally significant ($\beta = 0.077$, $t = 1.781$, $p = 0.075$), providing marginal support for H7a at the 10% significance level. Opportunity had a positive and statistically significant indirect effect on fraud intention through moral justification ($\beta = 0.163$, $t = 3.999$, $p < 0.001$), supporting H7b. Conversely, the indirect effect of capability was not significant ($\beta = 0.059$, $t = 0.869$, $p = 0.385$); therefore, H7c was not supported. Rationalization showed a positive but marginally significant indirect effect ($\beta = 0.203$, $t = 1.726$, $p = 0.084$), providing marginal support for H7d at the 10% level. Finally, arrogance had a positive and statistically significant indirect effect through moral justification ($\beta = 0.181$, $t = 2.149$, $p = 0.032$), supporting H7e. Overall, moral justification significantly or marginally transmits the effects of pressure, opportunity, rationalization, and arrogance on fraud intention, whereas it does not mediate the effect of capability.

DISCUSSION

Pressure and Moral Justification

Pressure is positively associated with moral justification, supporting H1. Fraud Triangle Theory treats pressure as a perceived problem or demand, while Moral Disengagement Theory explains how misconduct can be reframed as necessary to protect performance, employment, or services (Bandura, 1999; Cressey, 1953). This interpretation accords with Indonesian fraud evidence (Rustiarini et al., 2019; Utami et al., 2019) and recent findings that workplace pressure can activate moral disengagement and unethical conduct (Zhang et al., 2023; Zhao et al., 2022). BUMDs should therefore pair performance targets with ethical safeguards and realistic resource allocation. This interpretation is reinforced by Ar'Reza et al. (2020), who identify pressure as an internal fraud condition while emphasizing the role of individual meaning in responses to fraud risk.

Opportunity and Moral Justification

Opportunity is positively associated with moral justification, supporting H2. Weak controls create feasibility, but Moral Disengagement Theory explains why a loophole becomes psychologically usable when exploitation is construed as tolerated or harmless (Bandura, 1999). The result is consistent with opportunity-based fraud evidence (Rustiarini et al., 2019) and with research identifying moral disengagement as the link between situational conditions and unethical action (Newman et al., 2020; Schaefer & Bouwmeester, 2021). Control improvements should therefore be accompanied by explicit ethical accountability. Within the study, Ar'Reza et al. (2020) associate fraud opportunity with weak supervision and control gaps, while Ulfah et al. (2024) show that government control systems and ethical culture contribute to fraud prevention.

Capability and Moral Justification

Capability is not significantly associated with moral justification, so H3 is not supported. Fraud Diamond Theory defines capability as the knowledge, position, and access required to execute and conceal fraud (Wolfe & Hermanson, 2004), but competence is ethically neutral and may also strengthen compliance. Although Utami et al. (2019) link capability to fraud intention, the present result suggests that capability does not itself generate moral legitimization. Selection, segregation of duties, and access monitoring remain important, but cognitive interventions should focus on conditions more likely to activate justification. The nonsignificant result is also compatible with evidence that competence becomes fraud-preventive when combined with internal-audit responsibilities and professional skepticism (Waromi et al., 2024; Wuryandini et al., 2022).

Rationalization and Moral Justification

Rationalization is positively associated with moral justification only at the 10% level; H4 is therefore marginal rather than conventionally supported. Rationalization supplies excuses, whereas moral justification attaches misconduct to a valued purpose. Their conceptual proximity may reduce incremental statistical separation, consistent with process research distinguishing neutralization from moral disengagement (McCormack & Chowdhury, 2024; Schaefer & Bouwmeester, 2021). Future studies should refine their measurement and temporal ordering. Ar'Reza et al. (2020) provide contextual support by describing rationalization as a pre-fraud justification, although the present study shows that its association with moral justification is only marginal.

Arrogance and Moral Justification

Arrogance is positively associated with moral justification, supporting H5. Entitlement and perceived exemption from rules can make violations appear to be legitimate managerial discretion (Bandura, 1999; Crowe, 2011). The finding accords with evidence linking self-focused dispositions and entitlement to moral disengagement (Eissa & Lester, 2022; Sharma et al., 2024). BUMDs should constrain unilateral discretion through oversight, transparent decisions, and ethical challenge mechanisms. Although Ulfah et al. (2024) do not test arrogance directly, their findings underscore the importance of ethical culture and formal controls in limiting self-authorized departures from organizational rules.

Moral Justification and Fraud Intention

Moral justification has the strongest positive association with fraud intention, supporting H6 and the central proposition of Moral Disengagement Theory: misconduct becomes easier to contemplate after it is reconstructed as necessary or beneficial (Bandura, 1999). This result accords with workplace moral-disengagement evidence (Moore et al., 2012; Newman et al., 2020; Ogunfowora et al., 2022) and accounting research linking moral justification to fraud intention (Çollaku et al., 2025). Prevention should therefore

challenge narratives that legitimize manipulation for organizational goals. This implication is consistent with [Ulfah et al. \(2024\)](#), whose evidence shows that ethical culture strengthens organizational fraud-prevention mechanisms.

Pressure, Moral Justification, and Fraud Intention

Moral justification marginally mediates the relationship between pressure and fraud intention ($\beta = 0.077$, $t = 1.781$, $p = 0.075$), providing marginal support for H7a at the 10% significance level. Fraud Triangle Theory identifies pressure as a motivational condition for fraud ([Cressey, 1953](#)), while Moral Disengagement Theory explains how individuals may reduce moral conflict by portraying misconduct as necessary to protect organizational performance, employment, or public services ([Bandura, 1999](#)). The indirect pathway is contextually consistent with [Ar'Reza et al. \(2020\)](#), who show that pressure is an intrapersonal fraud condition whose behavioral relevance depends on how organizational actors interpret it.

This finding is consistent with evidence linking pressure to fraudulent conduct ([Rustiarini et al., 2019](#); [Utami et al., 2019](#)) and showing that workplace demands may encourage unethical behavior through moral disengagement ([Zhang et al., 2023](#); [Zhao et al., 2022](#)). Although the result should be interpreted cautiously because it is significant only at the 10% level, it suggests that BUMDs should establish realistic performance targets, strengthen ethical leadership, provide adequate resources, and develop safe reporting mechanisms to prevent organizational pressure from being morally legitimized as a justification for fraud.

Opportunity, Moral Justification, and Fraud Intention

Moral justification significantly mediates the relationship between opportunity and fraud intention ($\beta = 0.163$, $t = 3.999$, $p < 0.001$), thereby supporting H7b. Fraud Triangle Theory identifies opportunity as weaknesses in internal controls, supervision, and accountability that make fraud possible ([Cressey, 1953](#)), whereas Moral Disengagement Theory explains how individuals may interpret these weaknesses as organizational tolerance or evidence that misconduct causes limited harm ([Bandura, 1999](#)). This finding is consistent with evidence linking opportunity to fraudulent conduct ([Rustiarini et al., 2019](#); [Utami et al., 2019](#)) and identifying moral disengagement as a cognitive mechanism connecting situational conditions with unethical behavior ([Newman et al., 2020](#); [Schaefer & Bouwmeester, 2021](#)). Therefore, BUMDs should combine stronger internal controls and monitoring with ethical communication and accountability mechanisms that prevent control weaknesses from being morally interpreted as permission to commit fraud. This interpretation is reinforced by evidence linking weak control conditions to fraud opportunity and showing that ethical culture strengthens control-based fraud prevention ([Ar'Reza et al., 2020](#); [Ulfah et al., 2024](#)).

Capability, Moral Justification, and Fraud Intention

Moral justification does not significantly mediate the relationship between capability and fraud intention ($\beta = 0.059$, $t = 0.869$, $p = 0.385$); therefore, H7c is not supported. Fraud Diamond Theory defines capability as the knowledge, authority, confidence, and access required to execute and conceal fraud ([Wolfe & Hermanson, 2004](#)). However, capability is ethically neutral because professional competence may be used either to commit misconduct or to strengthen compliance. This result differs from [Utami et al. \(2019\)](#), who associated capability with fraud intention, but supports the view that personal resources lead to unethical behavior only under particular cognitive and situational conditions ([Dennerlein & Kirkman, 2022](#); [Ogunfowora et al., 2022](#)). Thus, capability alone does not activate moral justification or increase fraud intention. BUMDs should nevertheless maintain segregation of duties, access controls, personnel screening, and monitoring of employees holding strategic authority. Related studies show that capability is more likely

to support fraud management when embedded in internal-audit roles, skepticism, training, and access to relevant evidence (Waromi et al., 2024; Wuryandini et al., 2022).

Rationalization, Moral Justification, and Fraud Intention

Moral justification marginally mediates the relationship between rationalization and fraud intention ($\beta = 0.203$, $t = 1.726$, $p = 0.084$), providing marginal support for H7d at the 10% level, although it is not supported under the conventional 5% criterion. Fraud Triangle Theory describes rationalization as an excuse that reduces discomfort and personal responsibility (Cressey, 1953), whereas Moral Disengagement Theory explains moral justification as reconstructing misconduct as necessary or beneficial (Bandura, 1999). Thus, excuses may precede broader moral legitimization, although conceptual overlap and measurement proximity may weaken the distinct indirect effect (McCormack & Chowdhury, 2024; Schaefer & Bouwmeester, 2021). This finding should be interpreted cautiously and replicated using more differentiated measures and longitudinal or experimental designs. Practically, BUMDs should challenge excuses that normalize misconduct through ethical training, transparent accountability, and consistent enforcement of organizational rules. The positive but marginal pathway accords with Ar'Reza et al. (2020), who identify rationalization as justification preceding fraud, while confirming the need to distinguish it empirically from broader moral justification.

Arrogance, Moral Justification, and Fraud Intention

Moral justification significantly mediates the arrogance–fraud-intention relationship, supporting H7e, while the direct association is negative. This pattern of direct and indirect associations suggests that arrogance may be negatively associated with fraud intention directly while being positively associated with fraud intention when its influence operates through moral justification. Recent evidence links entitlement and empowering contexts to moral disengagement and unethical conduct (Dennerlein & Kirkman, 2022; Eissa & Lester, 2022; Sharma et al., 2024). Governance should therefore limit exceptionalism while directly challenging moralized justifications. The governance implication is consistent with Ulfah et al. (2024), who demonstrate that ethical culture and formal compliance mechanisms are integral to fraud prevention in government settings.

Overall, the findings support a behavioral extension rather than a deterministic reading of fraud-risk theory. Pressure, opportunity, and arrogance relate to moral justification, and moral justification is the most proximal correlate of fraud intention. Capability is not supported, rationalization is marginal, the opportunity and arrogance indirect effects are supported at the 5% level, and the pressure and rationalization indirect effects receive marginal support at the 10% level. This pattern is consistent with recent calls to connect organizational conditions to the cognitive processes underlying unethical pro-organizational behavior (Ahmad et al., 2024; Maulidi, 2025).

CONCLUSION

Among BUMDs, the findings show that fraud-risk factors do not operate uniformly or deterministically. Pressure is positively associated with fraud intention, whereas opportunity, capability, and rationalization have no significant direct associations, and arrogance has an unexpected negative direct association. Moral justification emerges as the strongest predictor of fraud intention, demonstrating that organizational conditions become behaviorally consequential primarily through individuals' moral evaluation rather than through risk exposure alone.

The mediation findings further demonstrate that moral justification significantly transmits the associations of opportunity and arrogance with fraud intention, while the indirect effects of pressure and rationalization receive marginal support at the 10% level.

Conversely, moral justification does not mediate the capability–fraud-intention relationship. These results indicate that employees may develop fraudulent intentions after cognitively reconstructing misconduct as necessary, acceptable, or beneficial to organizational interests. Thus, the study advances fraud theory by positioning moral justification as a central behavioral mechanism connecting organizational risk conditions with unethical intentions.

The findings also underscore the contextual nature of fraud-risk theories. In BUMDs, public accountability, reputational concerns, institutional legitimacy, and career consequences may shape how employees respond to organizational risks. Fraud prevention should therefore combine robust internal controls, segregation of duties, regular monitoring, ethical leadership, realistic performance targets, transparent accountability, and integrity-based training that challenges the moral legitimacy of misconduct. Ethical leadership, realistic performance targets, transparent accountability, and integrity-based training that challenges the moral legitimacy sentiment. This integrated approach shifts fraud prevention from merely reducing opportunities toward addressing the cognitive processes through which misconduct becomes morally acceptable.

LIMITATION

This study is limited by its cross-sectional, self-reported design, which restricts causal inference and may introduce social-desirability and common-method biases. Its purposive sample of BUMD officials in North Maluku also limits generalizability, while fraud intention may not reflect actual behavior. Moreover, the marginal indirect effects of pressure and rationalization require cautious interpretation. Future studies should employ longitudinal, experimental, and multi-source designs; incorporate objective fraud indicators; replicate the model across regions and organizational settings; distinguish rationalization more clearly from moral justification; and examine ethical leadership, moral identity, ethical climate, organizational justice, public-service motivation, and perceived accountability as additional mechanisms or boundary conditions.

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DECLARATION OF CONFLICTING INTERESTS

The authors declare that they have no known financial or personal conflicts of interest that could have influenced the research reported in this article.

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