

## Enhancing Vendor Selection Integrity: Integrating Fraud Heptagon Theory Framework in the Context of Fraud Prevention

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### ABSTRACT

*This study examines how financial pressure, rationalization, opportunity, arrogance, competence, culture, and religiosity influence fraudulent behavior in vendor selection processes using Fraud Heptagon Theory, making it suitable for analyzing potential fraud in Indonesia, where culture and religion are emphasized. Interviews with procurement committee members reveal that sufficient income and strong governance practices can mitigate fraud. However, rationalization, perceived opportunities, and arrogance increase fraud risk. Competence alone does not significantly impact fraud, but it can when combined with ethical training. A strong ethical culture and high religiosity are associated with lower fraud propensity. The findings suggest that aligning incentives, enhancing ethical training, implementing robust internal controls, fostering an ethical culture, and integrating religious values can reduce fraud risks. The implication of this study is to gain a deeper interpretation of the interplay of these factors preventing fraud and maintaining integrity in vendor selection.*

**Keywords:** Fraud Heptagon Theory, Vendor Selection Processes, Kickback, Procurement, Fraud Prevention, Culture, Religion.

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## 1. INTRODUCTION

In the contemporary business landscape, the integrity of vendor selection processes is paramount. Organizations must navigate complex networks of suppliers and contractors while ensuring that their selections are based on fairness, transparency, and reliability. However, the risk of fraud in these processes poses significant challenges, potentially leading to financial losses, reputational damage, and operational inefficiencies.

To effectively tackle these issues, the implementation of robust anti-fraud measures is essential. One promising approach is the utilization of the Fraud Heptagon, a comprehensive framework that identifies and mitigates the seven key factors contributing to fraudulent activities. By applying this model, organizations can systematically assess and strengthen their vendor selection processes, safeguarding against various forms of deception and malpractice.

The government procurement sector in Indonesia continues to be a hotspot for corrupt activities. According to the Corruption Eradication Commission (KPK) as of January 10, 2024, corruption cases related to the procurement of goods and services remain the second most prevalent category, trailing only behind gratification/bribery. Between 2004 and 2022, the KPK managed 1,351 corruption cases, with around 277 of these (20%) linked to the procurement of goods and services. This trend mirrors global patterns; a 2014 survey by PricewaterhouseCoopers (2023) revealed that 29% of organizations worldwide had encountered procurement fraud. Notably, procurement fraud tends to occur more frequently at the early stages of the procurement process, such as vendor selection, rather than at later stages like vendor performance and delivery. Procurement fraud is a serious issue that can cause significant financial losses to organizations. Therefore, it is crucial to identify any red flags that indicate fraudulent activity within the procurement process.

This study offers a novel perspective by applying the Fraud Heptagon Theory, developed by Reskino (2022), to the context of vendor selection within procurement processes. The Fraud Heptagon theory is an evolution of fraud theories developed by Reskino (2022). The five initial dimensions, which consist of pressure, opportunity, rationalization, competence, and arrogance, are derived from earlier fraud theories, such as the Fraud Triangle, Fraud Diamond, and Fraud Pentagon. Reskino (2022) introduced two additional dimensions to the existing fraud theories to explain the occurrence of fraud based on cultural and religious factors. These dimensions offer a deeper understanding of fraudulent behavior by emphasizing the influence of moral values and social norms on individual decision-making. In the context of vendor selection, cultural factors can shape perceptions of what is considered acceptable, such as the normalization of gift-giving or informal relationships that may lead to biased decisions. Religion, on the other hand, plays a role in guiding personal ethics. A lack of adherence to religious teachings such as honesty, responsibility, and trustworthiness may weaken an individual's resistance to engaging in corrupt practices. When a company lacks a strong ethical organizational culture or fails to promote religious or moral values, the risk of fraudulent behavior in procurement processes increases. Therefore, by integrating cultural and religious dimensions, the Fraud Heptagon framework highlights the importance of ethical alignment between personal beliefs and corporate values. Understanding these aspects allows organizations to develop more effective and contextually relevant anti-fraud strategies, particularly in the vendor selection process. This theory posits that fraud occurs due to a lack of faith and the absence of a positive organizational culture within a company. By integrating these new dimensions, the Fraud Heptagon offers a more comprehensive understanding of the motivations behind

fraudulent behavior, particularly in contexts where religion and culture play significant roles. By examining these components, organizations can develop targeted strategies to detect and prevent fraud, thereby enhancing the integrity of their vendor selection processes.

Previous studies on procurement fraud, particularly in Indonesia, have predominantly employed quantitative methods and centered around the Fraud Triangle framework. For instance, research by Rustiarini et al. (2024) utilized laboratory experiments to examine the effects of pressure, opportunity, and rationalization on individual fraudulent behavior in Indonesian public procurement. Their findings highlighted that high pressure and opportunity significantly increase the likelihood of fraudulent actions, with rationalization serving as a key mediating factor. However, such studies often overlook the deeper cultural and religious contexts that can influence ethical decision-making. By adopting a qualitative methodology, this research captures nuanced insights into how cultural norms and religious beliefs impact vendor selection decisions. The inclusion of culture and religiosity as analytical dimensions allows for a more contextually relevant exploration of fraud risks, particularly in environments where informal relationships and moral values play a significant role.

This paper aims to explore the factors that drive individuals to commit fraud, analyzed through the lens of the Fraud Heptagon Theory. By understanding the root causes of fraud, companies can develop strategic steps to prevent fraudulent behavior and enhance Good Corporate Governance (GCG). This study presents several best practices gathered through interviews with informants who hold significant roles in the procurement process, providing valuable insights. The Fraud Heptagon Theory is especially pertinent to this study, as it incorporates two additional dimensions: culture and religion, providing a broader understanding of the factors that contribute

to fraudulent actions. In a world where vendor relationships are increasingly critical to business success, adopting a proactive stance against fraud is not just prudent; it is imperative. The insights offered by the Fraud Heptagon present a valuable tool for organizations striving to maintain ethical standards and operational excellence in their procurement processes.

## 2. LITERATURE REVIEW AND HYPOTHESIS

### Agency Theory

The firm operates based on a limited or unlimited contractual relationship between two interested parties, known as the principal and the agent. The principal is the owner of the firm, while the agents are responsible for managing the business on behalf of the principal. Although these two parties are part of the same firm, they have different and often conflicting goals and interests, leading to what is referred to as the agency problem (Alchian & Demsetz, 1972). Eisenhardt (1989) categorizes agency theory with three assumptions about human nature: self-interest, bounded rationality, and risk aversion. The conflict occurs between the principal and agents, stemming from information asymmetry and differing attitudes toward risk-sharing (Jensen & Meckling, 1976; Ross, 1973). The agency problem between owners and managers in organizations, resulting from the separation of ownership and control, has existed since the emergence of large corporations (Berle & Means, 1932). Owners delegate management responsibilities to managers with the expectation that these managers will act in the best interests of the owners. However, managers often prioritize maximizing their own compensation instead. This self-serving behavior of agents is grounded in the rationality of human behavior (Sen, 1987; Williamson, 1985), which suggests that individuals act rationally to achieve their own objectives. The misalignment of interests between the principal and the agent, along with inadequate monitoring due to a dispersed ownership structure,

leads to conflicts known as principal-agent conflicts. In vendor selection, this can lead an agent to favor a supplier that offers kickbacks or personal benefits, rather than the best value for the principal. Anticorruption analysts note that a conflict of interest typically arises when a procurement official shapes tender rules or evaluates bids to favor a company in which they have a private stake, often in exchange for bribes. Such hidden actions (moral hazard) distort competitive bidding and inflate costs, reflecting a classic principal-agent problem where agents pursue self-interest at the organization's expense.

To mitigate these risks, organizations enforce control mechanisms throughout procurement. Key measures include independent audits and strict conflict-of-interest (COI) policies. Internal or external auditors systematically review purchase orders, bid documents, and contracts to verify that competitive-bidding rules were followed and that prices are fair. Meanwhile, COI policies require officials to declare any personal or financial ties to bidders; those with interests must recuse themselves from relevant decisions. For example, Indonesian procurement regulations (Article 7(2) of PR 16/2018) explicitly prohibit any conflict of interest that could skew fair competition. Similarly, global standards such as the UNCITRAL Model Law emphasize transparency, objectivity, and integrity in procurement to avoid abuses. Research on major fraud cases underscores the importance of monitoring: for instance, the Petrobras scandal revealed that undetected bribery and vendor overbilling were enabled by lapses in oversight, suggesting that stronger audit trails and due diligence are critical. In practice, many organizations also use e-procurement systems, multi-stage review committees, and whistleblower hotlines to enforce these controls and realign agent incentives. In real-world practice, both the public and private sectors see examples of these issues and controls. In Indonesia's state-owned enterprises (BUMN), for example, recent corruption investigations

have involved procurement. In 2025, prosecutors charged Pertamina executives with colluding to award inflated oil-import contracts, flouting rules to source domestic crude and causing multibillion-dollar losses (Reuters, 2025). This case illustrates the agency problem: senior managers allegedly acted on personal motives (colluding with external suppliers) rather than the public interest. By contrast, oversight is also evident: Indonesian law now mandates that procurement committees report and resolve any COI, and bodies like the national audit office and KPK use data-driven checks to flag irregular contracts. Internationally, similar lessons have led to stronger controls. The Petrobras example led Brazil and many corporations to tighten procurement audits and compliance programs. Multinational firms under laws like the U.S. Foreign Corrupt Practices Act likewise adopt rigorous supplier vetting and internal audits. Across governments, initiatives (e.g., OECD and World Bank guidelines) stress open bidding and independent review of vendor choices. Together, these examples show that while agency-related fraud in procurement is a universal risk, robust oversight—from mandatory COI disclosures to thorough audit checks—has proven effective in reducing fraud in vendor selection.

### **Definition of Fraud**

Based on various sources, fraud could be defined as the intention of deceiving others for personal gain or causing loss to victims through misleading actions or behaviors. According to Black's Law Dictionary, fraud entails conveying false information to achieve specific objectives at the expense of others. While the Institute of Internal Auditors, in collaboration with the American Institute of Certified Public Accountants (AICPA) and Association of Certified Fraud Examiner (ACFE) characterizes fraud as actions resulting in victims' loss or perpetrator gain through deliberate deception. Furthermore, ACFE also considers fraud as the misuse of

organizational resources for personal enrichment. If fraud is discovered within an organization and involves employees, then it is termed as occupational fraud (Bell, 2009). On the other hand, external fraud is committed by individuals such as customers, suppliers, creditors, external auditors, and investors. Meanwhile, Albrecht (2012) stated that fraud encompasses various actions executed by one or more individuals to gain benefits from others through information manipulation. ACFE (2024) outlines theories of fraud. Namely:

- a. Financial Statement. This type of fraud involves the intentional misstatement or omission of financial information to deceive stakeholders. This type of fraud is often perpetrated by management to meet financial targets or enhance the company's financial appearance (Rezaee, 2002). According to Linoardi & Suhartono (2022), managers might manipulate financial statements just to meet specific accounting objectives or to enhance the company's financial appearance. Typically, companies convicted of financial statement fraud encounter several adverse consequences, which include public criticism, loss of current and potential investors, a decline in share prices, and increased regulatory scrutiny (Nasir, 2019).
- b. Corruption. It involves offenders who use their influence in business transactions for personal gain (Holtfreter, 2005). It occurs when an employee abuses their position within a company by collaborating with others to make illegal profits, in which all parties are involved. Essentially, corruption is the misuse of entrusted power for private gain. This includes bribery, conflicts of interest, and extortion. A study by KPMG (2021) highlights that corruption is prevalent in both public and private sectors, which could significantly impact organizational integrity and performance. There are some examples

of corruption schemes such as bribery, extortion, and conflict (ACFE, 2024). Corruption also encompasses terms such as corporate wrongdoing, management fraud, and illegal corporate behavior (Handoko, 2021).

- c. Asset Misappropriation. ACFE (2024) identifies common schemes such as embezzlement, theft of cash, and fraudulent disbursements. Whereas, according to Handoko (2021), the misappropriation of assets involves employees stealing or utilizing company resources without any proper authorization. This particular type of fraud is easier to detect since the assets are tangible and can be easily tracked or traced.

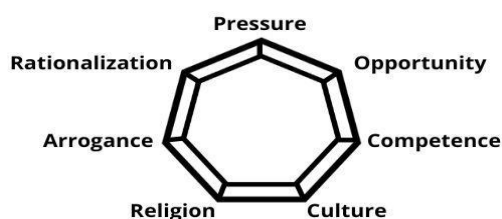
Procurement fraud is the illegal and unethical manipulation of the procurement process to gain financial advantages, often involving vendors, employees, or contractors who act dishonestly to secure personal or organizational benefits. This type of fraud can cause serious financial losses, particularly for government institutions that depend on procurement to acquire goods and services. It may involve suppliers offering kickbacks to buyers in return for being selected during the bidding process, even if the choice is not in the best interest of the organization. Procurement fraud is not limited to supplier-buyer collusion but is a recurring issue in procurement activities. According to the 2014 Global Economic Crime Survey by PricewaterhouseCoopers, 29% of global organizations reported experiencing procurement fraud, with most cases occurring during the vendor selection stage rather than in later phases such as performance or delivery. Procurement fraud can result in substantial financial damage to organizations, making it important to identify potential indicators of such misconduct early in the process. Typical signs include artificially raised contract prices, often due to a lack of price comparison or internal collusion; manipulation of bidding processes through tailored specifications that unfairly favor

a specific vendor; acceptance of inflated or false invoices for goods or services that were not provided or cost less than claimed; and the creation of fake supplier accounts used to submit fraudulent claims. Preventing this type of fraud requires careful monitoring and strict validation procedures throughout the procurement cycle.

### Fraud Heptagon Theory

Fraud Heptagon Theory is an evolution of fraud theory developed by Reskino (2022). This theory aims to address gaps in earlier literature that provided limited insights into the occurrence of fraud stemming from religious and cultural factors. It expands on previous fraud theories such as the Fraud Triangle, Fraud Diamond, and Fraud Pentagon. Reskino (2022) introduces two additional dimensions to existing fraud theories to explain occurrences of fraud based on cultural and religious factors. The original five dimensions—pressure, opportunity, rationalization, competence, and arrogance—are derived from earlier fraud theories and form the foundation of the Fraud Heptagon Theory. As a result, the Fraud Heptagon Theory consists of seven dimensions: pressure, opportunity, rationalization, competence, arrogance, culture, and religion. The motivation for individuals to commit fraud is influenced by religious factors. This is supported by findings from studies by Mujib (2018), Purnamasari et al (2015), Rifdayanti et al (2020), and Said et al (2018), which demonstrate that fraud occurs due to individuals' weakened faith. Additionally, culture plays a crucial role within an organization, shaping employees' characters and behaviors towards ethical conduct.

Figure 1. Fraud Heptagon Theory



In vendor-selection contexts, each Fraud Heptagon dimension contributes to fraud risk. Pressure (e.g., financial targets or lucrative kickbacks) creates a strong motive to manipulate bids, especially when combined with opportunity (weak controls or collusion). Indonesian experiments show that procurement fraud sharply increases when officers face both high pressure and easy opportunity (Rustiarini, 2019). Rationalization then allows individuals to justify unethical choices, for example, as deserved compensation or loyalty to one's group. Officials with greater competence (technical knowledge or access to insider information) can exploit system loopholes more effectively, and high-capability employees are far better at concealing irregularities. Finally, arrogance (overconfidence or entitlement) further erodes restraint; prior studies find that about 70% of fraudsters exhibit arrogance alongside pressure and greed (Nindito, 2018). In practice, this means that in procurement settings, pressure and opportunity create the conditions for fraud, while personal competence, arrogance, and rationalizations determine whether an official will actually breach the rules.

Cultural and religious context in Indonesia further colors these motivations. In Indonesia's highly collectivist, hierarchical culture, loyalty to family or superiors often overrides formal rules (Alfarin, 2021). For example, an official may rationalize selecting a vendor owned by a relative as fulfilling communal obligations or respecting elders, rather than seeing it as unethical favoritism. Norms such as "*gotong royong*" (mutual aid) or the emphasis on harmony can blur the line between a harmless gift and a bribe. Islamic ethical values, which dominate Indonesian society, explicitly condemn dishonesty and require trust, theoretically bolstering honesty in procurement. However, empirical studies note a paradox: many corrupt officials are outwardly devout Muslims, challenging the idea that personal faith alone prevents wrongdoings. In fact, researchers have

observed that under severe pressure, even religious individuals may ignore their moral beliefs (Urumsah, 2018). Thus, while Indonesian culture and religion provide a moral framework that could constrain fraud, in practice, strong group loyalties and hierarchical norms often enable nepotism, and intense pressures can override even deeply held ethical or religious precepts.

### Vendor Selection Process

Companies are increasingly focusing on improving their procurement operations to eliminate inefficiencies and challenges. Typically, cost savings are achieved by consolidating purchases, enhancing collaboration with suppliers, and promoting competitive bidding for contracts (Umberhauer & Gregson, 2016). However, despite these efforts, inadequate management of procurement can lead to financial losses due to undetected fraudulent activities. Procurement fraud, as highlighted by PwC (2014), may involve external vendors exploiting procedural weaknesses, internal misuse by employees, or collusion between vendors and employees. Detecting and preventing such fraud is crucial as it can result in significant monetary losses and damage to an organization's reputation.

Procurement integrity refers to the use of funds, resources, assets, and authority in alignment with their intended official purposes and the public interest. Any actions deviating from this definition are considered integrity violations and can be deemed suspicious or criminal behavior. Such violations can occur at various stages of the procurement process, including tender creation, implementation, documentation, contract formation, and execution. Common forms of procurement fraud and corruption include bid-rigging, collusion between vendors and employees, and vendor collusion. Modrušan et al (2021) provided information on different corruption types, their impact, and the probability of occurrence, indicating that bribery and kickbacks, conflicts of interest, collusive bidding, implementation, and political donations have the highest fraud impact on the table below.

Due to the significant harm that procurement fraud causes to companies, it must be reduced or even eliminated. By utilizing the Fraud Heptagon Theory, we can minimize the potential for fraud and improve the vendor selection process. This theory incorporates cultural and religious aspects, making it suitable for analyzing potential fraud in Southeast Asia,

Figure 2. Type of corruption

Type of corruption	Impact	Probability
Bribery and kickbacks	High	Medium
Conflict of interest	High	Medium
Collusive bidding	High	High
Shell companies	Medium	Medium
Leaking bid data	Low	Medium
Unbalanced bidding	Low	Medium
Manipulation of the bidding procedure	Low	Low
Split purchases	Medium	Low
Rigged specifications	Medium	Medium
Excluding qualified bidders	Medium	High
Unnecessary purchases	Low	Medium
Implementation	High	Medium
Donations to political parties	High	High

particularly in Indonesia, where culture and religion are emphasized. By applying this theory, companies can enhance the vendor selection process by considering a broader scope.

### 3. METHODS

The study design utilized in-depth interviews, complemented by non-participant observation of routine meetings. This dual approach enabled the research team to compare observed behaviors with those reported in interviews. Initially, all meetings were observed to understand decision-making processes, identify key interview participants, and gain insights into the organization's culture, which helped shape the interview topic guide.

Subsequently, five informants were selected through purposive sampling, based on their strategic roles in the vendor selection process across state-owned enterprises, government institutions, and private companies. Although limited in number, these individuals hold key decision-making positions, making them well-positioned to provide rich and relevant data aligned with the study's objectives. Therefore, despite the small sample size, the depth of experience and strategic insight offered by these participants was deemed sufficient to ensure the credibility and relevance of the study's findings. The exclusion criteria for research respondents include employees who have previously been found guilty of fraud or are currently under internal investigation related to fraud, as they may provide biased responses due to concerns about potential consequences or a desire to defend themselves. Interviews were conducted through Zoom meetings. To avoid misinformation, the interview responses will be summarized and reviewed by the respondents to ensure accuracy and alignment with what was communicated. The interview guide was structured around a questionnaire comprising 42 items divided into seven dimensions: pressure, opportunity, rationalization, competence, arrogance, culture, and

religiosity. This instrument was adapted from Reskino (2022), whose original study had tested the questionnaire's validity and reliability. Minor adjustments were made to contextualize the questions for this research setting, while maintaining the conceptual integrity of each sub-section to ensure comprehensive coverage of the factors associated with fraud behavior. The interview process lasted between 60 and 90 minutes.

### 4. RESULTS AND DISCUSSION

#### Pressure

Financial pressure in procurement committees can influence fraudulent actions. Inadequate income can create financial pressure (Lambsdorff, 1999). When the income/honorarium for procurement committee members is not commensurate with the workload and high risks, it often justifies committing fraud (Cressey, 1973). Cohen et al. (2012) tested that fraudulent behavior is also driven by financial pressure. Referring to the fraud triangle theory developed by Cressey (1973), financial pressure is a factor that can trigger fraudulent behavior.

Based on the interviews with all respondents, it is evident that the income received from the company is sufficient, which does not indicate any compulsion to commit fraud. Additionally, there is no pressure from superiors to engage in deviant behavior. Consequently, the company can adjust the salaries given to employees in accordance with the work performed without resorting to fraudulent activities, aligning with pressure can prevent deviant actions. Aligning with agency theory, by ensuring that employees' incentives are properly aligned with their responsibilities, the company can mitigate the conflict of interest between principals and agents. These findings are consistent with the study by Lux et al. (2022), which states that there is a significant difference in the intertemporal rewards within the compensation structures between the two research groups. This indicates that the compensation structure presents

intertemporal choices that can lead to a judgment shift influencing the deliberate action of fraud.

In addition to the fraud heptagon, agency theory provides further insights into how pressure can lead to fraudulent actions. According to agency theory, there is an inherent conflict of interest between the principals (owners) and the agents (managers or employees) of a company. Agents are expected to act in the best interests of the principals, but when their incentives are misaligned, agents may engage in behaviors that benefit themselves at the expense of the principals (Meckling, 1976). Inadequate income or incentives can exacerbate this conflict, leading agents to commit fraud to bridge the gap between their personal goals and the rewards provided by the company.

### **Rationalization**

Rezaee & Wang (2019) assert that rationalization always precedes cheating or crime. Perpetrators often justify their actions before committing them, linking rationalization closely to ethics and morals. Ribeiro et al. (2020) argue that rationalization involves a reasoning process that normalizes and morally accepts actions within society, with perpetrators seeking to legitimize their actions by finding excuses. According to Domino et al. (2015), rationalization tactics are used to justify fraudulent practices, such as corruption, as a way to neutralize regret or negative feelings. Kong et al. (2019) and Mui et al. (2015) describe delinquency as an activity aimed at gaining wealth through illegal means, where perpetrators justify and rationalize their actions as normal behavior.

Based on our interview, several respondents acknowledged that they rationalized or justified accepting kickbacks from vendor companies. They perceived these kickbacks as mere tokens, food, or vacations and claimed that accepting them did not affect their objective decisions in selecting vendors. They further justified this acceptance as a means

to maintain good relationships with the companies. However, as some companies strictly adhere to policies to achieve Good Corporate Governance (GCG), they avoid accepting any form of kickbacks. Implementing ISO 37001:2016 on Anti-Bribery Management Systems can help prevent larger kickbacks that could harm the company. Small-scale rationalization can pave the way for larger-scale fraud, as indicated by a respondent who noted that after becoming accustomed to small kickbacks, a vendor company offered a large commission if selected. This could compromise the objectivity of evaluations and ultimately harm the company. Ribeiro et al. (2020) argue that rationalization involves a reasoning process that normalizes and morally accepts actions within society, with perpetrators seeking to legitimize their actions by finding excuses. Previous researchers have also highlighted the role of rationalization in the vendor selection process. For instance, Rezaee & Wang (2019) demonstrated that procurement officials might rationalize accepting incentives from vendors by viewing them as harmless or as part of building business relationships.

Applying this integrated framework to our interview data yields deeper insight into how procurement officers rationalize noncompliance. Several respondents described choosing familiar vendors or expediting contracts under the guise of efficiency or trust. Such explanations are classic rationalizations: they recast what could be a policy breach, like bypassing formal bidding, as justified necessity. In Fraud Heptagon terms, these accounts illustrate the rationalization factor, offenders framing their actions as acceptable under the circumstances (Yang, 2023). Simultaneously, an agency perspective suggests why these rationalizations emerged. The officers' narratives reflect an underlying principal-agent tension: possessing discretion but facing oversight gaps, agents perceive and present their choices as aligned with the organization's interests.

### Opportunity

Perceived opportunity refers to how a crime can be executed by someone. This concept involves a person recognizing how they can misuse their position of trust to address personal financial issues (Kranacher et al., 2010). Based on this concept, individuals take advantage of the situations they encounter (Kelly & Hartley, 2010). The individual only needs to believe that an opportunity exists, regardless of its actual existence. Perceived opportunity is similar to perceived pressure, as fraud is more likely when individuals believe the risk of getting caught is low (ACFE, 2020). Factors contributing to perceived opportunity and potentially leading to fraud include assuming the employer is unaware, believing no one will notice or care, thinking policy violations are rarely checked, and assuming the behavior will not be taken seriously (Sausser, 2007). Several risk factors can increase the opportunity for fraud, such as the nature of the industry or organizational structures, intricate transaction processes, and significant related party transactions (Nguyen, 2010).

Based on our interview, some companies acknowledge the presence of fraud opportunities, primarily influenced by a corporate culture that normalizes kickback acceptance and the lax enforcement of company regulations, thereby sustaining the potential for fraud. However, companies with robust Good Corporate Governance (GCG) practices report minimal fraud opportunities. They attribute this to vigilant oversight by superiors over subordinates' work, a well-established vendor selection system with strong internal controls, and stringent company regulations that deter employees from engaging in fraudulent activities. Moreover, managers frequently rotate staff to mitigate fraud risks. One respondent highlighted that crucial vendor selection activities involving significant monetary amounts are centralized, thus minimizing opportunities for fraud. This finding aligns with Hashim et al. (2020), who

identified several potential risk factors that may increase the likelihood of fraud, including fundamental aspects such as ineffective management oversight, weak internal controls, complex organizational structures, complicated transaction procedures, and significant related-party transactions. Organizational culture and enforcement critically shape perceived opportunity. A weak ethical culture or apathetic tone at the top can render formal rules meaningless. As one analysis of fraud prevention notes, even straightforward controls must be enforced and monitored; otherwise, they fail to deter misconduct. If managers reward results above process, employees learn that bending the rules is tolerated. In such settings, the culture itself signals that internal controls are unimportant. Indeed, consultancy guidance observes that organizational culture drives conduct, while opportunity arises from a poor control environment (Walker, 2025).

The agency theory further elucidates how perceived opportunity can lead to fraud, particularly in the vendor selection process. According to agency theory, the conflict of interest between principals and agents can result in agents exploiting perceived opportunities for personal gain. When agents believe that the oversight is lax or the chances of being caught are minimal, they may rationalize engaging in fraudulent activities, including favoring certain vendors in exchange for kickbacks or other incentives. Similarly, perceived opportunities can encourage agents to exploit their positions, especially when they believe oversight is inadequate. Thus, addressing both the financial pressure and perceived opportunity factors is crucial in preventing fraud and maintaining Good Corporate Governance (GCG).

### Arrogance

According to Horwath (2020), there are five elements in fraud: pressure, opportunity, rationalization, capability, and arrogance. Arrogance involves a lack of conscience, characterized by dominance, entitlement,

or greed, by individuals who believe that corporate policies and procedures do not apply to them. In line with that, Mohamed et al. (2021) indicated that arrogance has a significant positive impact on the incidence of employee fraud within Malaysian financial institutions. Devi et al. (2021) state that when an individual experiences pressure, encounters opportunities, applies rationalization, possesses capability, and exhibits arrogance, it may signal fraudulent behavior. Studies by Tessa et al. (2016), Bawakes et al. (2018), and Puspita et al (2018) revealed that arrogance positively impacts financial statement fraud. Yusof (2016) also examined arrogance by evaluating CEOs holding multiple roles within and outside their companies. Optimal company performance should not correlate with directors holding multiple positions, as this duality can lead to increased fraud.

In this study, all respondents stated that senior executives understand the company in general, while middle managers understand the detailed rules regarding their work. There are no orders from superiors instructing actions outside the regulations that would be violations. Some company leaders have assigned tasks to staff according to their capabilities. Some leaders feel their abilities are superior to those of their staff because they feel responsible for the work performed by their staff. Several respondents believe that arrogant leaders might enable fraud by issuing commands outside the company's regulations for personal gain. Although rules may be well understood within the organization, arrogant behavior can still emerge when power structures are hierarchical and accountability mechanisms are weak. For instance, when decision-making authority is concentrated in a few individuals and internal checks are limited or poorly enforced, leaders may begin to operate under the assumption that their decisions are beyond scrutiny. To prevent fraud caused by arrogant leaders, companies

should enhance transparency and accountability in every decision-making process, ensuring that all leadership actions can be supervised and reviewed by authorized parties. Puspaningsih et al. (2024) stated that individuals in high-ranking positions within the company believe that the established policies will not constrain them, leading them to commit fraud under the assumption that their actions will go unnoticed.

Arrogance can be analyzed through agency theory, which suggests that conflicts of interest arise between principals (owners) and agents (managers or employees) because agents might prioritize their own self-interest over the interests of the principals (Jensen & Meckling, 1976). Arrogance exacerbates this issue, as agents who exhibit traits of dominance, entitlement, and a belief that corporate rules do not apply to them are more likely to engage in behaviors that serve their interests at the expense of the principals. By integrating agency theory and the Fraud Heptagon framework, we can see that arrogance plays a significant role in perpetuating fraudulent behavior.

### **Competence**

Kartikasari & Fitriani (2021) define competence as a person's expertise to manipulate external controls, design and develop strategies, and conceal information for personal gain. Fraud cases, particularly those involving substantial amounts of money, require individuals with specific skills and the ability to identify and exploit opportunities. However, research by Siddiq et al (2017) indicates that competence does not significantly impact fraudulent financial reporting. Competence involves the ability to bypass internal controls, devise strategies to conceal information, and navigate social conditions to fulfill personal interests (Horwath, 2011). Wolfe & Hermanson (2004) assert that fraud cannot occur without the right person possessing the necessary skills to commit it.

Some respondents agree that individuals with deep knowledge in a specific field can manipulate situations without being detected by others because they understand the existing loopholes. Additionally, those with both a high position and extensive knowledge tend to influence others more easily. Some respondents stated that knowledge and ability are two-sided factors that can be used either negatively or positively. People with integrity tend to use their skills and understanding to ensure that the company's business processes run fairly and transparently. Several respondents also agree that the higher a person's level of education or intelligence, the better their mindset, leading to better decision-making. A good leader will always influence their team to adhere to company procedures and regulations. To prevent fraud related to competency within the company, comprehensive training programs on ethical conduct, fraud prevention, and the importance of integrity should be provided to all employees, emphasizing the consequences of fraudulent activities. This finding is consistent with the research by Devi et al. (2021), who suggested that an individual's position within an organization can enable them to create or exploit opportunities to commit fraud.

From an agency-theoretic perspective, managerial arrogance exacerbates principal agent conflicts. Agency theory posits that managers (agents) may act opportunistically against principals' interests when oversight is weak. Competent agents have the potential to either contribute to or mitigate agency problems depending on their ethical orientation and the organizational culture. Therefore, ensuring that competent individuals are guided by strong ethical principles and provided with adequate training is essential for aligning the interests of agents with those of principals, thereby enhancing the integrity of the vendor selection process.

## Culture

Suh & Shim (2020) stated that culture represents the collective beliefs about how an organization should function, while climate reflects the shared perception of the organization's current operations. A positive and significant impact of culture on fraud prevention has been observed. Various methods can mitigate fraud, including leveraging local cultural practices to sanction offenders and enhance accountability (Saputra et al., 2022). Cultural approaches often deter individuals from committing fraud by making them reconsider their actions multiple times before proceeding (Majid, 2014). Recent studies indicate that increasing organizational investment can strengthen an anti-fraud culture and improve the effectiveness of monitoring controls. However, only a strong ethical corporate culture is significantly linked to a reduced perception of fraud within organizations (Suh & Shim, 2020). Numerous studies also highlight the importance of fostering an ethical culture in corporate anti-fraud strategies (Gill & Goldstraw-White, 2015).

Respondents stated the importance of maintaining employee morale and motivation to create a positive work environment. A firm work culture and strict procedures in vendor selection are necessary to help maintain integrity and create a positive work environment. The majority of respondents indicated that two-way communication is crucial for building solidarity and understanding individual issues, enabling evaluations for improvement. All respondents agreed that work that receives appreciation can trigger employee loyalty and foster good teamwork. Key Performance Indicator (KPI) assessments at the end of the period are also necessary so that every employee knows their role and responsibilities. This finding aligns with Suh & Shim (2020), when employees believe that the three

fundamental aspects of an ethical corporate culture, namely (tone at the top, workplace integrity, and ethics training), are strong, they are also more likely to assess their corporate anti-fraud strategy as being effective. An ethical corporate culture shaped in part by shared values further constrains malfeasance. Organizational culture is a strategic asset that embodies the shared objectives, values, and convictions of a firm. Studies show that culture directly affects moral decision-making: firms with strong ethical foundations exhibit behavior that is appropriate and responsible toward their stakeholders (Akhusie, 2024). Managers and employees know that dishonest actions would violate the firm's fundamental norms. This cultural backdrop aligns personal and organizational ethics and raises the intrinsic stakes of vendor-selection choices.

In summary, agency theory helps explain how organizational culture influences the vendor selection process by shaping agents' behaviors and decisions. A strong ethical culture fosters transparency, accountability, and adherence to fair vendor selection practices, thereby reducing the risks associated with agency problems and enhancing overall organizational integrity.

### **Religiosity**

Glock & Stark (1965) described religiosity as an integrated system of beliefs, lifestyle, rituals, and institutions that gives meaning to human life and guides individuals toward certain values. Religiosity is an internal factor that can influence a person's likelihood of committing fraud. Individuals with high levels of religiosity are less likely to engage in fraud, whereas those with lower levels are more prone to fraudulent behavior (Hayati & Amalia, 2021). Strong religious knowledge can deter deviant actions. This aligns with studies by Ananda et al. (2016); Purnamasari et al. (2015); Safitri (2017), which found that religiosity positively affects fraud prevention. An individual with a high level of religiosity is unlikely to engage in unethical behavior. Fraud, as an unethical

act, can damage both the organization and other parties involved. The intention to commit fraud can be restrained if religious values have been internalized (Azizah & Reskino, 2023).

Most respondents agreed that there is a correlation between the level of religiosity and the tendency to engage in fraud, where less religious individuals tend to ignore moral aspects and are more easily tempted to engage in unethical behavior. However, some respondents noted that the level of religious understanding does not always correlate with an individual's integrity in a work context. Other influential factors include personal integrity, individual conscience, internal supervision, and work culture as a broader framework for shaping professional ethics. This finding is consistent with previous research that indicates issues like corruption, abuse of power, and asset misuse frequently stem from a deficiency in religious values, integrity, and ethics, along with the selfishness of those involved (Istifadah & Senjani, 2020). Despite its individual nature, religiosity may influence organizational outcomes when embedded within a company's culture. Religious principles, when embraced as part of an organization's ethical foundation, can inform behavioral norms, decision-making processes, and governance standards. In procurement and vendor selection, religiosity can reinforce ethical awareness among employees and decision-makers by promoting fairness, honesty, and accountability. Therefore, it is essential to view religiosity not as an isolated deterrent, but as part of a broader ethical framework that includes organizational culture and institutional controls. Organizations that support religious and moral values through codes of ethics, open decision-making, and transparent vendor selection procedures are more likely to deter fraudulent behavior. Embedding these values into procurement policy design, staff training, and oversight mechanisms can reduce the agency risks associated with vendor

favoritism, kickbacks, and conflicts of interest.

Agency theory supports the argument that religiosity can significantly impact the vendor selection process by shaping agents' ethical orientations as well as the decision-making frameworks. Organizations that foster a culture supportive of religious values may benefit from enhanced ethical behaviors among agents, contributing to fairer and more transparent vendor selection practices.

## 5. CONCLUSION

This study highlights seven key factors that influence fraud risk and mitigation in vendor selection processes. First, aligning income and incentive structures with ethical objectives helps reduce financial pressures that may lead to misconduct. Second, rationalization of unethical behavior, such as bribery, can be addressed through the implementation of formal anti-bribery measures such as ISO 37001:2016. Third, weak oversight, inadequate internal controls, and complex organizational procedures can create opportunities for fraud. These risks can be mitigated by enhancing supervision and centralizing decision-making. Fourth, arrogance among leaders increases fraud risk, as individuals in senior positions may perceive themselves as being above established rules. Promoting transparency and accountability is essential to addressing this issue. Fifth, competence plays a dual role. While skilled individuals may exploit weaknesses in systems, appropriate training and ethical guidance can help align employee behavior with organizational values. Sixth, a strong ethical culture that emphasizes leadership integrity, employee conduct, and ethics training supports transparent and fair practices. Finally, religiosity is associated with a lower tendency to engage in fraudulent behavior. Although religiosity alone may not prevent unethical conduct, integrating moral and religious values into organizational ethics can strengthen integrity. Despite these insights, the

study is limited by a small sample size and the use of self-reported data. Future research should include a broader range of industries and examine the roles of cultural and religious diversity in influencing fraud risk.

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