

# The Role Supply Chain Management and Religiosity of Local Parliament Members against Fraud Rejection in Public Budgeting

Irfan Zamzam<sup>#1</sup>, David P. E. Saerang<sup>#2</sup>, Herman Karamoy<sup>#3</sup>, Joubert B. Maramis<sup>#4</sup>

<sup>#1</sup>*Faculty of Economics and Business Universitas Khairun, Ternate, Indonesia*

<sup>#2,3,4</sup>*Faculty of Economics and Business, Universitas Sam Ratulangi, Manado, Indonesia*

<sup>1</sup>*irfan.zamzam@unkhair.ac.id*

<sup>2</sup>*d\_saerang@unsrat.ac.id*

<sup>3</sup>*hkaramoy@unsrat.ac.id*

<sup>4</sup>*Corresponding author: E-mail: joubertmaramis@unsrat.ac.id*

**Abstract-** The purpose of this research is to investigate the relationship between religiosity, supply chain management, and the rejection of fraud in budgeting to the regional government with the moderating effect of the leadership. The research finding was based on quantitative methods by means of questionnaire while PLS-SEM has been used for analysis. The results showed that the higher the level of religiosity of local parliament members, the higher the attitude of rejection of fraud in regional budgeting. The results also showed that the higher the level of supply chain management, the higher the attitude of rejection of fraud in regional budgeting. The results highlight that individuals who have a level of religiosity in themselves will practice religious values by obeying the rules and carrying out obligations and being able to control themselves from all forms of fraud including fraud in the budgeting process. The results also exposed the leadership moderates the links among the religiosity, supply chain management, and the rejection of fraud in budgeting to the regional government.

**Keywords;** *Supply chain management, Religiosity, Fraud, Budgeting, Local government*

## 1. Background

In many cases, the asymmetry of information between the regional government and the local parliament has triggered fraud by the regional government. Irregularities and fraud in financial management can be started from the preparation of regional revenue and expenditure budgets. This is in line with agency theory which states that agency conflicts occur in the form of decisions taken by executives regarding resource management [20]. Asymmetry of information in budgeting raises the opportunistic behavior of local governments in proposing spending. The increase in corruption cases is an indication of opportunistic behavior by the government as a budget maker [17]. The perspective of agency theory in the formulation and implementation of local government budgets often results in conflicts between regional governments and the legislature.

ACFE Indonesia found that the type of corruption fraud was more dominant at 64.4% compared to the misuse of assets/assets of the state and companies at 28.9% and fraudulent financial statements at 6.7%. Fraud crime can be committed by individuals who work in the bureaucracy or in the legislature. Several studies on the relationship of bureaucracy, for personal gain, to corruption fraud [11, 15, 23]

Crowe [7] considers that in addition to the capability possessed by a fraudster, the nature of arrogance has an attitude of superiority over the rights owned and feels that internal control or organizational policy does not apply to him. Arrogance behavior that is selfish and detrimental to others occurs because of the power inherent in the position. In the budgeting, process self-control is needed both in the executive and the legislative. Local parliament can prevent fraud in the budget preparation process if it ignores opportunistic behavior.

The theory of religiosity posed that individuals who have a good understanding of religiosity may likely implement their attitudes and behavior in carrying out various activities including in their work lives. Religiosity as the level of individual commitment to their religion, understanding, internalizing, and integrating religious norms into themselves and becoming their personalities [19]. Likewise, local parliament members who are trusted and elected representatives of the people must have attitudes and behaviors that live up to the value of religiosity in the work environment and duties. Hence, this research aims to explore the factors that influence local parliament members in the rejection of possible fraud of the regional budget, with specific cases in North Maluku Province.

The supply chain management is one of the prominent factors of this era. The frequent attention and research of the researches on supply chain management have increased its importance. Whether the product, service-oriented organization the supply chain management has similar importance in both the cases. At an early age, the

supply chain management was solely considered the concept of the production-oriented firm only. Later it has proved that the supply chain management also has the same importance in the services-oriented business or affairs [3, 31]. Supply chain management operated in different ways according to the need of the organization. Like in the production business the role of supply chain management is different in comparison with the role in services-oriented business. In the past numerous times, the studies proposed that there is an association between the service-oriented business and supply chain management. Supply chain management has an effect on the entire operation of the organization. In the services-oriented business, supply chain management operates via information sharing. Information is very important for any organization. This is one of the vital variables the organization achieves the success with the help of the right decision taken on the basis of the timely received information. The supply chain management plays a vital role in the fraud detection and control in the firm. In addition, the rejection of the fraud situation can be minimized by applying the effective supply chain practices. Any delay in the information due to whatsoever reason badly affects the organization's operations from top to bottom. Information sharing is one of the vital elements of the organization. It has no effect on the internal but also on the external environment of the organization. Here in this present information, the supply chain management is taken in the context of the information sharing. The organization in this modern world put maximum efforts in order to have the required information (with the help of supply chain information sharing system) with the view to achieving a competitive advantage. A number of fraudulent cases in the past proved that any delay or weak supply chain information sharing gives an invitation to fraudulent activities. There is a positive association reported between the supply chain information sharing system and the controlling of fraud [30, 32].

## 2. Hypotheses development

Agency theory is a concept that explains the contractual relationship between principals and agents, namely between two or more individuals, groups, or organizations [14]. One theory that explains the relationship between principals and agents is rooted in economic theory, decision theory, sociology, and organizational theory. Agency theory analyzes the contractual arrangement between two or more individuals, groups, or organizations. The principal makes a contract, both implicitly and explicitly, with the agent in the hope that the agent will do the work as desired by the principal so that the authority is delegated and the agent is obliged to provide an accountability report on that authority. Agency theory is based on seven fundamental assumptions: personal interests, conflicting goals, limited rationality,

information asymmetry, efficiency advantages, risk avoidance, and information. Lupia and McCubbins [16] state that the process of giving authority occurs when principals trust by selecting other people or groups as agents who work for the principal's interests. Principal-agent relations occur when the actions taken by someone have an impact on others or when someone is very dependent on the actions of others [12].

In the public sector, in the agency relationship in the government between the regional government and legislative, the regional government is the agent and the local parliament is the principal [8, 18]. In the budget preparation process, proposals submitted by local governments are more likely to prioritize the interests of local governments [10, 27]. ACFE [1] found that fraud committed by collusion contributes to the greatest losses and they are difficult to detect. Without a doubt, this is a problem for any organization because the idea why people are involved in collusive actions has been difficult to detect. The impact of supply chain on the fraud detection has been examined many times by the previous studies but religious factor and leadership had not been examined in the previous studies and the current has fulfilled this gap and take supply chain along with religiosity as predictor and leadership has been examined as the moderator in the current study.

In the context of the public sector, fraud is a series of irregularities and illegal acts carried out by people who have interests and power in order to gain benefits and harm others. Fraud perpetrators in government can come from officials, employees, within the central/regional government environment, the legislature, and the private sector who have a job related to the government. The Association of Certified Fraud Examiners (ACFE) mentions fraud as intentional unlawful acts committed for a particular purpose (manipulation or giving false reports to other parties) committed by people from within or outside the organization for personal gain or groups that directly or indirectly harm other parties. Cressey [5] showed that fraud is caused by 3 factors of pressure, opportunity, and rationalization [25]. To improve fraud prevention and detection it is necessary to consider the fourth element. In addition to dealing with pressure, opportunity, and rationalization must also consider the individual's ability, namely personal traits and abilities that play a major role in fraud that may actually occur even in the presence of three other elements, including religiosity [22].

Religiosity is the appreciation of one's religious values that are believed to be in the form of observance and understanding of religion correctly and implemented in daily life. Religiosity is manifested in various aspects of human life, religious activities not only occur when someone performs ritual behavior but also when carrying out other activities that are driven by birth force.

Religiosity is the level of one's conception of religion that is the level of knowledge of his religion and the level of one's commitment to his religion is something that needs to be understood as a whole so that there are various ways for individuals to be religious [4, 12]. Religious factor has also considered as the foremost factors that also control over the fraud situation in the organization. The employees that are more religious are less involved in the fraudulent activities while the employees that are not more close to the religious activities are more towards the fraudulent activities in the organization. Thus, the religious factor has prominent importance in term of fraud rejection in the organization. Religion is a system of symbols, belief systems, value systems, and institutionalized behavior systems, all of which are centered on issues that are perceived as the most meaningful. The concept of religiosity has five types of religious dimensions that are ideological, ritualistic, experience, intellectual and consequential dimensions [2, 6].

With the passage of time, the rapid reporting of the corporate fraudulent cases have proved that the supply chain information sharing system plays a vital role in the organization. The supply chain information sharing system safeguards the organization all kinds of information [33]. Most of the corporate frauds commit due to a weak supply chain information sharing system. The more the supply chain information sharing system is strong the less the chances of the financial embezzlement do exist. Earning management one of the important topic of the corporate governance also proved that the board member with the help of managers by having the advantage of weak supply chain information sharing system manipulates the organization financial reporting in order to save the tax from the government authorities and the profit from the shareholders [24]. The only reason that stands behind this system is a weak supply chain information sharing system. There are many fraud examples that proved that the security of the information for any organization is very important. The internal, as well as external information, is considered as the asset of the organization.

To safeguard the information of any organization there is a need for proper mechanism or the system. This system is usually called the supply chain information sharing system. The supply chain information sharing system not only controls the internal but also the external information of the organization. The supply chain information sharing system basically creates a linkage between the organization's internal and external information. All the organizational internal and external information is a shared via supply chain information sharing system [9]. Any bug in this supply chain information sharing system can badly affect the organization system. A number of times in the past it is reported that there is an association

between the supply chain information sharing system and the controlling of the fraudulent activities [24, 28].

Leadership is a word that matters a lot in the world. All around the globe, leadership plays a vital role in order to shape the organization's culture and the environment [13]. There are a number of forms of leadership that affect the organization's culture. Like green leadership, toxic leadership, creative leadership. The reflection of the leadership can be seen from the organizational culture. The leadership school of thought is very important for the organization. If the leadership is toxic then it will definitely be reflected via a rigid culture. On the other hand, if the leadership is green then it also has the same effect on the organization culture. But if the leadership is creative it will allow and prefer the easy and relax culture in order to facilitate the employees to have creative ideas. So the approach of the leadership reflects in the organization culture and the environment from top to bottom. In this present, investigation the leadership is taken as the moderating variable. In the past a number of times the leadership reposted as the moderating variable as it has its effect on the entire system of the organization [26]. Based on all above discussions, the present study has developed the following hypotheses.

**H1:** There is an association between religiosity and fraud rejection.

**H2:** There is an association between supply chain management and fraud rejection.

**H3:** Leadership moderates the relationship between religiosity and fraud rejection.

**H4:** Leadership moderates the relationship between supply chain management and fraud rejection.

### 3. Methodology

This study explores the experience of legislative members of North Maluku Province against the rejection of fraud in budgeting. The right methodology for this investigation is quantitative method, which deals with understanding some aspects of social life, and methods that generally produce words, not numbers, as data for analysis while PLS-SEM has been used for analysis. However, phenomenological methods are epoch, eidetic or phenomenological reduction, imaginative variation, and texture and structure synthesis. To obtain primary data types, researchers need formulate questionnaires and sent to the respondents. With the direct observation that is participatory, the researcher can directly observe the behavior, attitudes, circumstances of the informant, the situation of the site, and its interpretations which become experiences. The key informants in this study were members of the North Maluku Provincial Legislature Budget Board and the member check informants consisted of academics and local

government officials. The variables that has been adopted by the ongoing article include the one moderator, one predictive and two predictors. The leadership (LS) has been used as the moderator that has eight items. In addition, the predictive variable named as fraud rejection (FR) has six items. Finally, the predictors such as religiosity (REG) and supply chain management (SCM) that has five and seven items respectively. These constructs with the linkage among them are shown in Figure 1.

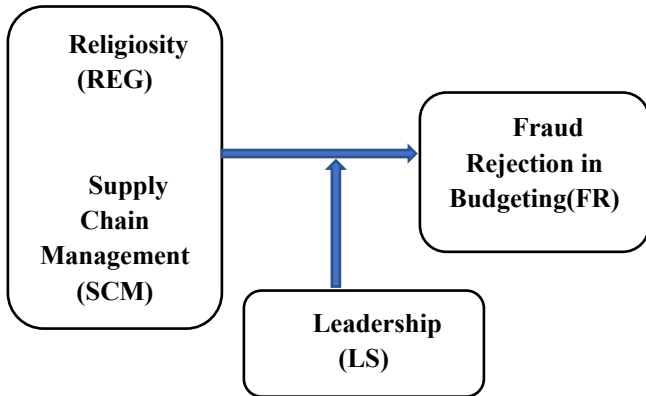


Figure 1. Theoretical framework

4. Results

The results of the current article includes the checking of measurement along with structural model. The assessment of measurement model includes the checking of convergent validity along with discriminant validity. However, the assessment of structural model includes the testing of the hypotheses by using oath analysis. Firstly, the ongoing study go for the assessment of measurement model in which convergent validity has been tested first.

The convergent validity is about the links among the items and the results show that high linkage among items and valid convergent validity because the standards show the Alpha and CR values should be higher than 0.70 and the statistics also show the values of CR and Alpha are higher than 0.70. In addition, the standards show the loadings and AVE values should be higher than 0.50 and the statistics also show the values of loadings and AVE are higher than 0.50. Thus, it proved that high correlation among items and these are shown in Table 1.

Table 1. Convergent validity

Items	Loadings	Alpha	CR	AVE
FR2	0.842	0.856	0.902	0.698
FR4	0.850			
FR5	0.817			
FR6	0.833			
LS1	0.603	0.909	0.912	0.574
LS2	0.611			
LS3	0.602			

LS4	0.899			
LS5	0.877			
LS6	0.864			
LS7	0.604			
LS8	0.895			
REG2	0.695	0.835	0.890	0.671
REG3	0.897			
REG4	0.768			
REG5	0.899			
SCM1	0.833	0.931	0.944	0.707
SCM2	0.861			
SCM3	0.845			
SCM4	0.813			
SCM5	0.876			
SCM6	0.862			
SCM7	0.792			

In the assessment of measurement model, the current study has tested the discriminant validity after the convergent validity. These are two methods of checking the discriminant validity named as Fornell Larcker and Heterotrait Monotrait (HTMT) ratio. Firstly, the current study tested the discriminant validity by using the Fornell Larcker along with cross loadings. The discriminant validity is about the links among the variables and the results show that no high linkage among variables and valid discriminant validity because the standards show the links among the variables itself are higher than the linkage of the variables with other variables. Thus, it proved that no high correlation among variables and these are shown in Table 2 and Table 3.

Table 2. Fornell Larcker

	FR	LS	REG	SCM
FR	0.835			
LS	0.421	0.757		
REG	0.722	0.412	0.819	
SCM	0.404	0.589	0.365	0.841

Table 3. Cross-loadings

	FR	LS	REG	SCM
FR2	0.842	0.283	0.598	0.324
FR4	0.850	0.385	0.625	0.346
FR5	0.817	0.422	0.607	0.365
FR6	0.833	0.311	0.582	0.314
LS1	0.158	0.603	0.145	0.671
LS2	0.168	0.611	0.151	0.671
LS3	0.151	0.602	0.139	0.658
LS4	0.410	0.899	0.383	0.401

LS5	0.404	0.877	0.407	0.419
LS6	0.415	0.864	0.443	0.375
LS7	0.163	0.604	0.152	0.669
LS8	0.409	0.895	0.381	0.399
REG2	0.423	0.314	0.695	0.207
REG3	0.726	0.337	0.897	0.369
REG4	0.493	0.309	0.768	0.245
REG5	0.660	0.394	0.899	0.339
SCM1	0.325	0.487	0.308	0.833
SCM2	0.329	0.510	0.286	0.861
SCM3	0.309	0.474	0.279	0.845
SCM4	0.303	0.514	0.238	0.813
SCM5	0.370	0.503	0.324	0.876
SCM6	0.403	0.496	0.379	0.862
SCM7	0.320	0.483	0.314	0.792

Secondly, the current study tested the discriminant validity by using the HTMT ratio. The discriminant validity is about the links among the variables and the results show that no high linkage among variables and valid discriminant validity because the standards show the values of HTMT ratio are less than 0.90. Thus, it proved that no high correlation among variables and these are shown in Table 4.

Table 4. Heterotrait Monotrait ratio

	FR	LS	REG	SCM
FR				
LS	0.411			
REG	0.832	0.401		
SCM	0.449	0.744	0.398	

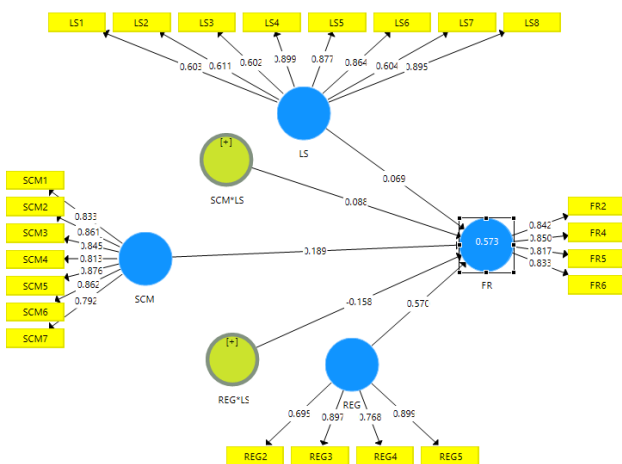


Figure 2. Measurement assessment model

Finally, the present study tested the structural model that is related to the hypotheses testing with the help of path analysis. The results of path analysis show that

supply chain management and religiosity have positive linkage with the fraud rejection and accept H1 and H2. In addition, the results also show that leadership has positively moderated among the links of supply chain management and fraud rejection and accept H4. Finally, the findings also show that leadership negatively moderated among the links of religiosity and fraud rejection and accept H3. These values are shown in Table 5.

Table 5. Path analysis

Relationships	Beta	S.D.	t-statistics	p-values
REG -> FR	0.570	0.045	12.539	0.000
REG*LS -> FR	-0.158	0.053	2.971	0.003
SCM -> FR	0.189	0.065	2.913	0.004
SCM*LS -> FR	0.088	0.050	1.777	0.046

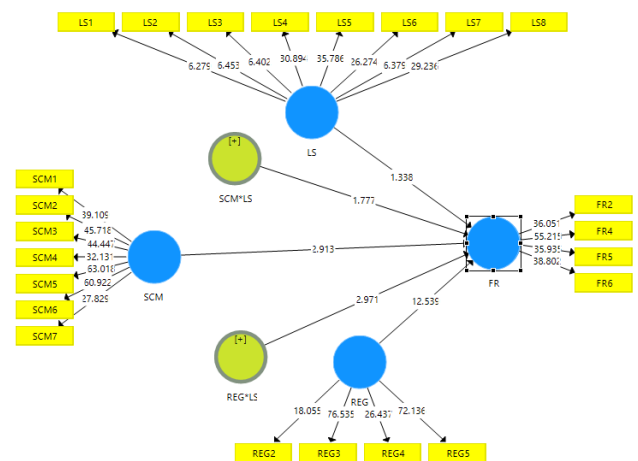


Figure 3. Structural assessment model

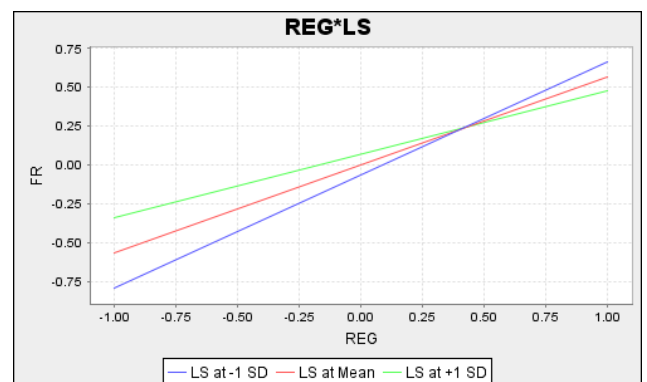


Figure 4. REG\*LS

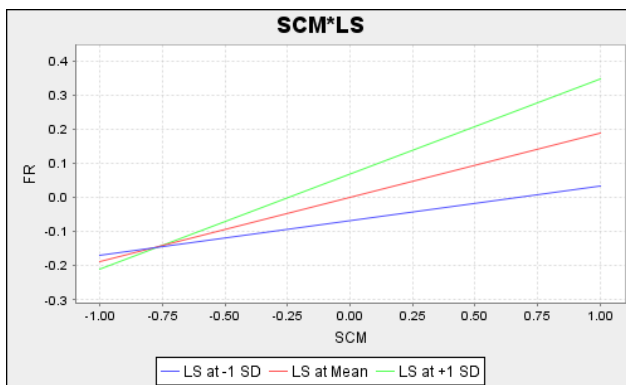


Figure 5. SCM\*LS

## 5. Discussion and conclusion

Budgeting problems that often occur in local government in Indonesia, because of out of sync planning with planning documents, local government commitment, no priority plan, inconsistency in the budget cycle schedule, and incomplete data. The rejection of fraud in budgeting occurs because of deliberate fraud committed by the local government to move and change the budget without the approval of the local parliament. Causes of fraud in budgeting including time pressure and control open up opportunities for local governments to make fraud, rationalization. There are numerous results reported regarding the supply chain information sharing system. These results sometimes vary according to geographical culture. The results of the current study such as positive association of the supply chain along with religiously with fraud detection has been similar to the past studies that has been discuss below and leadership style put a moderating impact among the links of supply chain and fraud rejection and religiosity and fraud rejection that also been similar of the outcomes of the past studies that has been discuss below in the text. In all the results on factor is similar that any organization supply chain information sharing system plays a vital to safeguard the organizational kind of information. In the same way, the results of this investigation proposed that an effective supply chain information sharing system has a negative association with the rejection of fraud [24]. However, the current study findings are matched with the findings of Mutangili [21] who also examined that the effective supply chain practices could reduce the fraud in the organization. In addition, a study by Wisniewski and Buschulte [29] investigated that the supply chain management has the ability to detect the fraud and reduce the chance of the fraud in the organization and this could be same as the findings of the present study. Religiosity that is owned by members of the local parliament is a dimension of appreciation of one's religious values that are believed in the form and understanding of religion correctly and is implemented in daily life, especially in the world of work. Individuals who have a level of religiosity in themselves will practice religious values by obeying the

rules and carrying out obligations and being able to control themselves from all forms of fraud including fraud in the budgeting process. The higher the level of religiosity of local parliament members, the higher the attitude of rejection of fraud in budgeting. The future directions for the researchers are to employ the supply chain information sharing system as a mediating variable.

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