Analysis of fraud in the Indonesian public sector through three behavioral lenses.

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Abstract

Purpose
Based on the authors' study, the purpose of this paper is to better understand why fraud in the Indonesian public sector is so resilient from three behavioral perspectives are the Schemata Theory, the Corruption Normalization Theory and the Moral Development Theory.

Design/methodology/approach
This paper examines fraud trends and patterns in the Indonesian public sector in the past decade through examination of reports from various institutions as well as other relevant documents regarding fraud related issues to gain a better understanding of the behavioral mechanisms underlying the adoption of fraud into organizational and individual schemata. For the purpose of gaining various perspectives on anti-fraud measures, this study also uses expert interviews and focus group discussions with relevant experts in Indonesia on various fraud-related issues.

Findings
The authors establish that the rampaging fraud in the Indonesian public sector is an outcome of cumulative decision-making processes by the participants. Such a process is influenced by individual and organizational schemata to interpret problems and situations based on past knowledge and experience. The discussion in this paper highlights the mechanisms of corruption normalization used to sustain corruption networks especially in the Indonesian public sector which will be very difficult to break with conventional means such as detection and prosecution. Essentially, the entire process of normalization will cause moral degradation among public servants to the point where their actions are driven solely by the fear of punishment and expectation of personal benefits. The three pillars of institutionalization, rationalization and socialization strengthen one another to make the entire normalization structure so trivially resilient that short-term-oriented anti-corruption measures may not even put a dent in it. The normalization structure can be brought down only when it is continuously struck with sufficient force on its pillars. Corruption will truly perish from Indonesia only when the societal, organizational and individual schemata have been re-engineered to interpret it as an aberration and not as a norm.

Research limitations/implications
Due to the limited time and resources, the discussion on the normalization of fraud in Indonesia is focused on fraud within the Indonesian public institutions by interviewing anti-fraud professionals. A more complete picture of fraud normalization in Indonesia can be drawn from interviews with incarcerated fraud offenders from Indonesian public institutions.

Practical implications
This paper contributes to the development of fraud eradication strategy by deconstructing corruption normalization processes so that the existing resources can be allocated effectively and efficiently into areas that will result in long-term benefits.

Originality/value
This paper demonstrates how the seemingly small and insignificant behavioral factors may constitute for fraud in Indonesia.

INTRODUCTION

Corruption has been part of many developing countries and Indonesia is not an exception. Corruption, generally defined as the abuse of public power for private benefits, has been a major problem in the world causing low economic growth, distorted investment and low quality of public services (Dreher, et al., 2009). Billions of dollars have been lost to corruption around the world.

Worldwide experience has shown that corruption affects not only the perpetrators but also their environments and even their countries. More than a few high profile politicians, world leaders, businessmen, and even governments have fallen because of accusations of corruption. Conflicts arising from corruption-related issues have even claimed the lives of many innocent people.

Efforts have been made by various international institutions to reduce the risk of corruption in the world. The convention essentially provides standards in particular for criminalizing the acts of bribery in international business transactions to foreign public officials.

Studies have shown that corruption, especially in the public sector, has been part of many developing countries. The illicit funds from corrupt activities are diverted from the original purpose of providing public health and education services, prosperity, and development, to the multiple private accounts of the people entrusted with management of public resources. Venality statistics for Asian developing countries accents the priority of addressing corruption challenges in countries such as Indonesia.

In the 2019 Corruption Perception Index report, for example, Indonesia was ranked 85 in the world (Transparency International, 2020). Under Law No. 31 Year 1999 as amended by the Law No 20 Year 2001 on the Eradication of Corruption, there are seven categories of offences that constitute corruption: acts that cause losses to the nation; bribery; occupational embezzlement; extortion; deception; conflict of interests in procurement of goods and services; and gratification (Ardisasmita, 2006).

Corruption has been a visible feature of Indonesian government since at least the leadership of Suharto. Even after nearly two decades since the fall of the Suharto regime, corruption remains pervasive in Indonesia particularly in the public sector as evidenced by hundreds of major corruption cases investigated by the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, also known as the KPK).

This paper will use the schemata theory, the corruption normalisation theory and the moral development theory to identify the current behavioural trend of corruption in the Indonesian public sector and the behavioural factors that make corruption in the Indonesian public sector so resilient.

The major conclusion of the paper is even long after the fall of the Suharto regime, its signature rent seeking practices as well as corruption normalization processes still characterize the Indonesian economy today and has caused multiple corruption problems.

This conclusion is supported by the results of analysis of corruption cases investigated between 2004 and 2015 by the Corruption Eradication Commission (KPK) as well as several major political events in Indonesia. Based on data collected for purposes of this paper, the second conclusion is the resilience of corruption in the Indonesian public sector is a legacy of the Suharto regime and a product of thirty-two years of extensive corruption normalisation which made corruption became part of Indonesian societal, organizational and individual schemata.

Anti Corruption Extensive efforts

Extensive efforts have been devoted to bring corruption offenders to justice. Law enforcement initiatives have included Law No. 31 Year 1999 as amended by the Law No 20 Year 2001 dealing with the Eradication of Corruption, identifies seven categories of offences that constitute corruption: acts that cause losses to the nation; bribery; occupational embezzlement; extortion; deception; conflict of interests in procurement of goods and services; and gratification (Ardisasmita, 2006).

Nevertheless, as evidenced by the seemingly unchanged level of corruption during the Yudhoyono government, 2004 – 2014, many observers argue that much still needs to be done to achieve the strategy's objectives (Blunt, et al., 2012; Corruption Eradication Commission, 2015; Control Risks Group, 2013).

Corruption in the Indonesian Public Sector

The Corruption Eradication Commission (KPK) categorizes corruption offences into seven categories: goods and services procurement, licensing, bribery, unauthorized collection, budget misallocation, money laundering and hindering KPK's investigation.

In practice, the five major offences are often interconnected to one another. When private sector vendors approach government officials to unlawfully seal a procurement contract, for example, they may offer a huge amount of bribes to the officials who then conceal the money or other assets from the authorities' attention by various means of money laundering.

Despite the existing anti-corruption laws as well as an independent vigilant anti-corruption agency in Indonesia, corruption remains entrenched in the bureaucracy. Despite the fall of the New Order regime in 1998, many high-ranking public officials in the Reformation era still use their positions to provide "rents" to those who were willing to pay for their "services".

In Indonesia, the prevalent corruption is believed to be the result of the corrupt minds of public officials in the government. Accepting bribes, for example, appears to be part of daily routine of corrupt Indonesian public officials.

This is believed to be among the causes of the rampaging corruption in the country. Once a candidate is accepted as a civil servant through corrupt means such as bribing public officials, he or she will immediately seek to recover his or her investment, if necessary through corrupt means such as unlawfully giving privileges to businessmen in exchange for bribes.

The Schemata Theory

One way of looking into corruption is through the "schemata" theory. The early proponent of the concept of schemata was Frederic Bartlett (1995, p. 201) who defined schema as an active organization of past reaction, or of past experiences, which must always be supposed to be operating in a well-adapted organic response. The notion of schemata has had a long history as a psychological construct in understanding human learning and memory (Newell, 2003, p. 384).

As part of human actions, corruption is believed to be influenced by cultural values within society. As defined by Schwartz (1994, p. 21), values are desirable transitional goals, varying in importance, that serve as guiding principles for individuals or organizations. Values can be acquired both through socialization and learning experience (Schwartz, 1994, p. 21). As part of an individual's schemata, value may change over time due to changes in the environment.

The Corruption Normalization Theory

A corrupt organization will develop a certain mechanism that makes corruption look less evil to sustain the network of offenders. In Indonesia, for example, evidence suggests that corruption is so prevalent it becomes a norm embedded deeply within the structures and activities of the country's public institutions (Budiman, et al., 2013, p. 139).

The process by which normalization pervades an organization will result in the degradation of organization members' morality to the point where the fear of punishment and the search for rewards become the ultimate driving factors in discharging duties and responsibilities.

When a corrupt act is first perpetrated in an organization, there will most likely be cognitive dissonance among its perpetrators. Whether or not the act will be repeated often depends on the leadership in the organization. If

the act is severely sanctioned then it will be remembered as an anomaly by the other organization members and will be less likely to be repeated in the future.

On the other hand, when the act results in no serious consequences from the organization it will only be a matter of time before another act is perpetrated. When an organization and its leadership tolerate or even condone corrupt acts then gradually they will be part of its normal day-to-day operations embedded within its formal structure and culture.

Ashforth and Anand (2003, p. 12) argued that by transforming corruption into mere mechanical operations the routinization process promotes corruption in four ways:

1. Removing reflective thoughts on the actions;
2. Breaking down corrupt acts into specialized tasks assigned to separate organization members so that they will perform the tasks without realizing that their individual actions are actually part of a large scheme of corruption;
3. Locking organization members into an interconnected system so that they will be swept along by its momentum; and
4. Inducing individuals to focus more on the processes rather than the goal.

Essentially, at this point corruption becomes an integral part of organizational schemata but is yet to be part of organization members' individual schemata and thus a further process of socialization is required.

The Moral Development Theory

A person will base his or her actions on the terms of contracts and avoiding violation of the will or rights of others and majority will and welfare (Craig, 1974, pp. 122-123). In other words, he or she is doing what he or she is doing because the existing rules and regulations command him or her to do so. Nevertheless, by upholding the principles of justice and fairness, he or she will perceive that although rules and regulations are meant to be obeyed, they should not be seen as ideal, utopian and absolute decrees to be obeyed without criticism. People with this type of moral schema will be more likely to question what they perceive as wrongdoings or unethical conducts within their organizations regardless the fact that the actions in question are supported by organization's policy and culture. Many people with this type of schema have been known to become effective whistleblowers in exposing various frauds within their organization or society.

CONCLUSION

Corruption is a global problem and no country is immune to it. The complexity and the elusive nature of corruption has made it difficult for many countries to properly address the problem. Factors such as insufficient legislation, weak enforcement, weak democracy, lack of transparency and accountability, wide authority given to public officials, absence of effective checks and balances, and perverse incentives (United Nations Office on Drugs and Crime, 2004) have been the focus of various anti-corruption initiatives all around the world.

As a centuries-old, complex, and multidimensional problem, corruption requires a multidimensional approach to address its eradication. As portrayed by the Transparency International's Corruption Perception Index and other studies, corruption in Indonesia remains pervasive throughout governments. Part of the failure to effectively address the problem is the lack of awareness of the multidimensional nature of corruption. As a consequence, resources allocated for investigations and prosecutions see little or no success in preventing the continued flourishing of corruption in the country.

By using three behavioral lenses (the Schemata Theory, the Corruption Normalization Theory, and the Moral Development Theory), this paper discusses potential means to address the corruption problem especially within Indonesian public institutions.

Once corruption loses its ability to regenerate, it will become "killable" and with sufficient efforts, eradicating it will only be a matter of time. Support from all elements of society is indispensable in ensuring that corrupt acts are no longer accepted as a norm but as an aberration that needs to be contained and eradicated.

This paper shows that the normalization of corruption has been systematically carried out since the New Order regime through, among others, multiple behavioral engineering means. One of the results of this long and extensive normalization is the persistent corruption problem in Indonesia. Even long after the fall of the Suharto regime the three processes of institutionalization, rationalization, and socialization can still be found in many parts of the Indonesian public sector.

At the center of the corruption problem is the patrimonial leadership style which many believe to have facilitated the rent-seeking practices in the public sector resulted in corrupt acts such as bribery and procurement related corruption.

The decentralization system is also believed to increase corruption at the local levels. The rent-seeking activities are now becoming decentralized, creating political and economic uncertainty within the local governments.

Cultural and historical factors need to be taken into consideration when designing and implementing anti-corruption measures to achieve the desired results.

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