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FRAUD DIAMOND THEORY AND FINANCIAL DISTRESS IN MALAYSIA: THE MITIGATING IMPACT OF RISK MANAGEMENT COMMITTEE ETHNICITY

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Abstract: *The present study aimed to investigate whether the Bumiputra risk management committee (RMC) can mitigate the effect of fraud diamond factors (pressure, opportunity, rationalization and capability) on financial distress. Using yearly data from 174 firms on financial distress between 2014 and 2019, this study found that the proportion of Bumiputra RMC members was effective in mitigating the influence of opportunity on financial distress. However, the impact of pressure remained significant, even when the proportion of Bumiputra RMC members was higher. This research contributes to the understanding of how the institutional context, particularly ethnicity in Malaysia, affects the relationship between the factors of the fraud diamond and financial distress. The findings highlight an area that regulators should focus on to address the underlying causes of fraud.*

Keywords: *Financial distress, Fraud Diamond Theory, risk management committee, Malaysia*

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Introduction

Fraud refers to a deliberate illegal act performed with the intention of achieving a specific objective, such as manipulating information or submitting false reports. This misconduct may be perpetrated by individuals within or outside an organization and is aimed at securing personal or group advantages, often resulting in harm to other parties, either directly or indirectly (Nur, 2022). Such unethical practices have not only contributed to the downfall of many companies around the world but have also resulted in significant financial losses for investors. According to the Association of Certified Fraud Examiners (ACFE) 2024 Report to the Nations, the total financial losses from fraud cases worldwide amounted to more than $3.1 billion. Reports by PricewaterhouseCoopers (2024), 43% of Malaysian organizations reported experiencing fraud in the past two years, up from 41% in 2018. This indicates a persistent high prevalence of fraud in Malaysia, consistent with previous years. In contrast, the Department of Statistics Malaysia (DOSM) reported a 35.5% increase in online crime cases in 2023, totaling 34,532 cases compared to 25,479 in 2022. Financial distress has been identified as a key factor contributing to fraudulent behavior within organizations (Mukhtaruddin et al., 2022). It refers to a situation in which a company experiences significant funding challenges, struggles to meet its debt obligations, or faces the threat of insolvency (Manaf et al., 2020). In Malaysia, the classification of companies under the PN17 status—short for Practice Note 17/2005—is commonly associated with firms undergoing such financial hardship. Bursa Malaysia assigns the PN17 designation to publicly listed companies that fail to meet specific financial requirements, thereby distinguishing them from financially stable entities to protect both current and prospective investors. Firms classified under PN17 are more prone to committing fraudulent financial reporting as a result of the intense pressure to fulfill financial expectations, coupled with the perceived opportunity created by weakened internal controls (Ismaila et al., 2020). This inclination is frequently driven by the need to maintain investor confidence and portray the company as viable and sustainable despite underlying financial weaknesses. As a result, numerous studies have explored the relationship between financial distress and fraud risk factors, as outlined in the Fraud Diamond Theory (FDT), which identifies four key elements: pressure, opportunity, rationalization, and capability.

Despite growing interest in the link between financial distress and fraudulent financial reporting, empirical findings remain inconclusive. For instance, Aviantara (2021) suggested that restatements in financially distressed firms may serve as indicators of financial statement fraud. Similarly, Utami and Pusparini (2019) found a positive association between financial distress and the likelihood of fraudulent reporting. Further support for this relationship is provided by studies such as Manaf et al. (2020), Handoko et al. (2020), Mukhtaruddin et al. (2022), and Nuristya and Ratmono (2022), all of which identified a significant connection between financial distress and fraudulent financial activities. However, other researchers have reported contradictory findings. Safiq and Seles (2019), for example, found no evidence that financial distress increases the risk of fraud. Likewise, studies by Saputra et al., (2023), Othman et al., (2023), Sanjayyana and Urumsah (2021) and Kurniawan and Hermawan (2017) concluded that heightened financial distress does not necessarily correspond with increased instances of financial statement fraud.

The inconsistency in prior research findings may be attributed to the influence of additional variables, such as corporate governance practices and a country's institutional context. In Malaysia, corporate governance is shaped significantly by its structural and institutional framework, which, in turn, may affect the prevalence of fraud. However, despite the implementation of governance mechanisms, it remains uncertain whether these measures have

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effectively curbed fraudulent activities, especially in light of the continued rise in corporate fraud and business failures (Ismaila et al., 2020). In response to these challenges, the Securities Commission Malaysia (SCM) introduced the Malaysian Code on Corporate Governance (MCCG) 2017, which places strong emphasis on establishing a Risk Management Committee (RMC). This committee, primarily composed of independent directors, is tasked with overseeing the firm's risk management framework, policies, and procedures to enhance accountability and fraud prevention.

While the Risk Management Committee (RMC) serves a vital role in overseeing corporate risk and governance practices, its effectiveness may be shaped by the broader institutional context, including socio-cultural factors such as ethnicity. In Malaysia, where the population is predominantly composed of Malays (Bumiputras), followed by Chinese, Indians, and other ethnic groups, the dynamics of ethnicity may influence corporate decision-making and governance effectiveness. A chairman or board of directors belonging to a specific ethnic group may significantly impact the company's business and value (Al-Absy, 2020). Previous studies highlighted that the ethnicity of the board could play a role in reducing fraud. Nasir et al. (2019) found a significant positive relationship between financial statement fraud and the percentage of Malay directors on the board. Whereas Al-Aby (2020) report that ethnicity don't seem to affect how much the company engages in real earnings management. In other words, it does not have a noticeable impact on the way the company manages its earnings through real activities.

Malaysia presents a distinctive institutional context in which ethnicity plays a significant role in shaping the reporting environment. This influence has been particularly evident since the colonial era under British rule, which left a lasting impact on administrative and governance systems. Moreover, the relevance of ethnicity remains prominent, as numerous public policies in Malaysia are structured around ethnic considerations, making the country's demographic composition a critical factor in understanding institutional and corporate behavior. Three distinct ethnic groups make up Malaysia, a multiracial nation: Malays, Chinese, and Indians. Businesses in Malaysia have traditionally been controlled by ethnic Chinese, despite the fact that Malays make up the majority of the country's population (60%) and are ethnically diverse. Despite limitations placed on Chinese-owned businesses in Malaysia, they continue to perform better than businesses owned by non-Chinese groups (Peck-Ling et al., 2022). Some of the richest Malaysians and successful businesses are Chinese-owned (Zakaria & Ibrahim, 2022). According to Halim et al., (2024), Malays weren't originally interested in business, but they are willing to get involved because of their respect for leaders. When these leaders make decisions, others usually follow without hesitation out of loyalty. While the Malays are seen as less exploitative and more compassionate (Navaratnam, 1997), one distinctive characteristic of the Chinese that may affect transparency is that they take risks and are more optimistic (Weber, Hsee, & Sokolowska, 1998). The success of Chinese businesses is largely due to their ability to build strong networks. These include family connections, relationships within their ethnic community, and partnerships with other ethnic groups, which are important for business growth and entrepreneurship (Halim et al., 2024)

Several studies have been carried out to look into the impact of financial distress and fraud diamond factors (Saputra et al., 2024; Aviantara, 2023; Ifada & Yulianto, 2022; Sanjayyana and Urumsah, 2021; Christian, 2020). For example, Christian (2020) investigates the relationship between fraud diamond theory and corporate fraud with financial distress as intervening variable. Their result indicates that fraud diamond has a significant influence on

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both financial distress and corporate fraud among Indonesian listed companies. Sanjayyana and Urumsah (2021) examined the direct relationship between the components of the Fraud Diamond Theory and their influence on both financial statement fraud and financial distress in the Indonesian context. Their findings reveal that pressure specifically in the form of financial targets has a significant impact on the occurrence of financial distress.

While a considerable body of research has explored the relationship between the components of the Fraud Diamond and financial distress, there is limited evidence on the potential moderating role of risk management in this relationship. Wan Fauzi et al. (2022) investigated whether risk management practices could alleviate the adverse effects of fraud diamond factors on financial distress. However, their study primarily focused on risk management practices as reflected through disclosure, rather than examining the specific culture of the risk management committee. In contrast, Sadique et al. (2019) highlighted that the institutional frameworks, cultural values of different ethnic groups, and legal systems in Malaysia are distinct from those in Western economies, leading to potentially divergent results. Thus, this study's primary goal is to investigate whether the ethnicity of the RMC can mitigate the effect of fraud diamond factors on financial distress.

The organization of this paper is as follows: Section 2 provides an overview of the literature review and the development of hypotheses. Section 3 outlines the research methodology employed in the study. The results of the research are presented in Section 4, and the paper concludes with a summary of the findings in Section 5.

Literature Review

Fraud Diamond Theory and Financial Distress

Wolfe and Hermanson (2004) introduced the Fraud Diamond Theory (FDT), which encompasses four key elements: pressure, opportunity, rationalisation, and capability. Montgomery (2002) suggested that the absence of adequate internal controls, job supervision, audits, or disciplinary checks can create opportunities for fraudulent activities. Rationalisation occurs when an individual justifies their actions, either as a victim of fraud or as the perpetrator attempting to excuse their misconduct—such as rationalising the crime by feeling they deserve it. Capability refers to personal traits, characteristics, and behaviours that may facilitate the occurrence of fraud.

Previous studies have highlighted that financial fraud remains prevalent in financially distressed companies (Bakar, 2021). Financial distress creates an environment that may foster the conditions outlined in the FDT, which can lead to fraudulent financial reporting (Almilia, 2006). This underscores the importance of analysing fraud in order to prevent financial reporting fraud and understand the underlying causes that drive individuals to commit such acts. Saleh et al. (2021) validated the applicability of the FDT model for detecting financial statement fraud, confirming its relevance for use in further studies. Natalis (2022) found that financial distress is significantly shaped by pressure, rationalisation, and capability. Kartikasari and Irianto (2010) argued that financial statement fraud driven by pressure, opportunity, and rationalisation could increase the likelihood of a company's bankruptcy. However, Sanjayyana and Urumsah (2021) identified that financial distress did not appear to influence the occurrence of financial statement fraud. Additionally, Heniwati and Essen (2020) noted that examining the factors contributing to fraudulent financial statements through the FDT framework, including the influence of financial distress, remains a relatively underexplored area.

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H1: There is a significant relationship between FDT and financial distress.

The Effect of ethnicity of RMC on FDT and financial distress

Risk management is intended to improve the directors' capacity to monitor the risks threatening a business, with the committees excellently controlling, detecting, and preventing risk (Ugwu et al., 2020). In order to safeguard the firm's shareholders, forming the RMC allows the company to determine its risks and detect and assess significant risk factors (Aldhamari, 2020). Moreover, the establishment of an independent committee is expected to enhance the efficiency of risk assessment procedures and reduce financial risks, including the mitigation of financial crimes (Abdullah & Said, 2019). The Risk Management Committee (RMC) is anticipated to play a positive role in risk reduction and improve the overall performance of the firm (Ames et al., 2018). Research by Bhuiyan et al. (2020) and Madu and Hassan (2021) revealed that the creation of an RMC allows organizations to effectively carry out their responsibilities, thereby improving corporate performance and decreasing the likelihood of fraud. Additionally, the RMC has been found to be highly effective in controlling, detecting, and preventing risks, especially financial risks (Abdullah et al., 2017; Abdullah & Said, 2019). In a study conducted by Ugwu et al. (2021) on the impact of corporate RMCs on business operations in Nigeria, the results indicated that the presence of an RMC significantly influenced the return on equity (ROE) of the companies in the sample, particularly among banks.

Johl et al. (2012) investigated the links between Bumiputra and non-Bumiputra (ethnicity), corporate governance features and audit fees by using information from 559 Malaysia's publicly listed firms in 2005. The results aligned with the notion that firms led by Bumiputra CEOs tend to incur higher audit fees, although no such relationship was observed for companies with audit committees chaired by Bumiputras. Additional analysis revealed that smaller firms with Bumiputra CEOs pay higher audit premiums. Moreover, the study found that audit fees are influenced by an ethnicity-based effect, as Bumiputras, who dominate audit committees, generally pay higher audit fees compared to other companies. Tee and Rassiah (2020) also explored the issue of board diversity in developing countries. In addition to examining the moderating effect of investors' ownership, their study also examined the relationship between ethnic board diversity and profitability quality. The findings revealed that boards with greater ethnic diversity are associated with better levels of profitability in a sample of Malaysian firms. Salleh et al. (2006) suggest that Malaysians exhibit distinct characteristics compared to other nationalities, particularly in terms of higher levels of uniformity, conservatism, and disclosure. Abdullah (1992) highlighted that Malays are generally considered less individualistic than the Chinese, with Islam fostering a focus on organizations and societies rather than individualism. Islamic values encourage corporate transparency and help minimize earnings management practices. However, the findings indicated that race, as a cultural factor, does not influence profit management. One possible explanation for this outcome is Malaysia's ongoing process of modernization (Mohd Iskandar & Pourjalali, 2000). As a result, both the Chinese and Malays demonstrate similar levels of individualism, driven by their shared need to adapt and survive in a challenging environment.

Hiring a Bumiputra RMC, where the majority comprises Malays who adhere to Islamic business principles, may effectively oversee the managers' actions and activities as they bear the primary responsibility for any financial collapse. Thus, Bumiputras could enhance the firm's worth and shield it from financial difficulty in accordance with the agency and resource dependence theories. Therefore, the study proposes the following hypothesis:

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H2: Bumiputra RMC mitigates the effect of fraud risk factors on financial distress.

Research Methodology

Sample Selection

The sample for this study consisted of all Malaysian companies listed on the PN17 list of corporations from 2014 to 2019, totalling 53 companies. As previously mentioned, PN17 refers to Practice Note 17/2005, a designation given to companies experiencing financial distress. These companies have failed to meet the minimum capital or equity and company shareholders' funds and thus do not justify continuing trading and listing in the stock exchange. The period from 2014 to 2019 was selected to examine and compare the risk management practices of companies before and after the amendment of the MCGG 2017 to incorporate the role of the RMC. As a result, the initial sample consists of 318 observations. A total of 144 observations were excluded due to missing data on control variables. Consequently, the final sample included 174 observations. The distribution of these observations is presented in Table 1, while Table 2 outlines the industry-specific details.

Table 1: Sample Selection

Description	Number of Observations
Initial sample (53 x 6 years)	318
(-) missing data	(144)
Final Sample	**174**

Source: Authors' Own Work

Table 2. Distribution of Industries with Firms Listed as PN17 from 2014 to 2019.

No	Industries	Number of firms	Percentage (%)
1	Industrial products	23	43
2	Consumer products	14	26
3	Energy	6	11
4	Trading/ Services	3	6
5	Property	2	4
6	Telecommunication	2	4
7	Medical and Health	1	2
8	Technology	1	2
9	Financial Services	1	2
	Total	**53**	**100**

Source: Authors' Own Work

Data Collection and Variables Measurements

Financial distress, which is proxied by PN17 status, is the dependent variable used in this study. The PN17 firms do not justify their continued trading and listing on the Bursa Malaysia stock exchange because they are financially troubled businesses with deficits in their shareholders' funds. The status used as a dummy variable denotes 1 if the companies are listed as PN17 within 2014-2019 and 0 if it is delisted from the list within the year. The study's independent variables are the fraud risk factors derived from FDT: pressure, opportunity, rationalisation, and capability. Pressure is proxied using financial stability and measured by dividing the changes

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in total assets by total assets in the previous year. Opportunity is proxied using the quality of external auditors. Arguably, using a good quality external auditor will decrease financial distress, as good quality auditors may detect fraud easily. Thus, the opportunity is measured by using a dummy variable.

In this study, a company that engages a Big 4 auditor is assigned a value of 1, while a company that employs a non-Big 4 auditor is assigned a value of 0. The rationale for this classification is based on the assumption that when a company changes its auditors to a more reputable firm, it might be trying to show that it is taking steps to address potential risks and improve its financial situation (Munoz & Pincus, 2024). Similarly, changes in directors are used as a proxy for capability. According to Indrati & Handayani (2022), alterations in the board of directors are believed to play a significant role in mitigating financial distress within firms. The proportion of Bumiputra directors in the RMC was measured to measure the impact of RMC ethnicity on the relationship between fraud diamond factors and financial distress. Five control variables include firm size measured by firms' total assets, leverage measured by total debt to total assets, the board size, and the percentage of the independent board of directors and industries. The operational definitions of the variables used in this study are presented in Table 3.

Table 3: Operational Definition of Variables

Variables	Symbol	Operationalisation	Sources/ Citation
Dependent Variable			
Financial Distress	DISTRESS	A dummy variable is used to indicate whether a company was listed as PN17 (1 if listed, 0 if not) during this period.	
Independent Variables			
Pressure	PRESSURE	Financial instability is measured by changes in total assets divided by total assets in the previous year.	Fathmaningrum & Anggarani (2021)
Opportunities	OPPORTUNITIES	The quality of external auditors is represented using a dummy variable, where a value of 1 indicates the firm employs a Big Four auditor, and 0 indicates otherwise.	Fathmaningrum & Anggarani (2021)
Rationalisation	RATIONALISE	Auditor turnover is measured using a dummy variable, where a value of 1 indicates a change in auditor within this period, and 0 indicates no change in auditor.	Sabrina et al. (2020)
Capability	CAPABILITY	Directors' turnover is measured using a dummy variable, where a value of 1 indicates a change in directors within this period, and 0 indicates no change in directors.	Yendrawati (2019)
Moderator Variable			
RMC Ethnicity	BUMI_RMC	Percentage of Bumiputra directors in the RMC.	

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Control Variables			
Firm Size	FIRM_SIZE	Natural log transformation of total assets	Rahmatika et al (2019)
Leverage	LEVERAGE	The ratio of total debts to total assets	Fathmaningrum & Anggarani (2021)
Board Size	BOD_SIZE	Number of the board of directors	
Board Independence	INDEPENDENCE	Percentage of the independent board of directors	

Source: Authors' Own Work

Data Analysis

The following regressions were used to validate the research objectives:

i. Regression Model (1) aimed to explore the relationship between the fraud diamond factors and financial distress. The model was specified as:

$$DISTRESS_{it} = PRESSURE_{it} + OPPORTUNITIES_{it} + RATIONALISATION_{it} + CAPABILITY_{it} + BUMI_RMC_{it} + Control\ Variables_{it} + \varepsilon \quad (1)$$

ii. Regression model (2) was used to investigate the potential moderating effect of RMC ethnicity on the relationship between the fraud diamond factors and financial distress. This was done by interacting all fraud diamond factors with the proportion of Bumiputra directors in the RMC.

$$DISTRESS_{t} = PRESSURE_{it} + OPPORTUNITIES_{it} + RATIONALISATION_{it} + CAPABILITY_{it} + BUMI_RMC_{it} + PRESSURE_{it}* BUMI_RMC_{it} + OPPORTUNITIES_{it}* BUMI_RMC_{it} + RATIONALISATION_{it}* BUMI_RMC_{it} + CAPABILITY_{it}* BUMI_RMC_{it} + Control\ Variables_{it} + \varepsilon \quad (2)$$

This study employed panel data, which is considered a more robust method compared to pooled ordinary least squares (OLS) due to its ability to account for both cross-sectional and time-series effects. In contrast, the pooled OLS approach ignores the panel structure of the data, treating observations as having homoscedastic errors across firms and periods, and assumes that the errors are uncorrelated over time within a specific firm. As noted by Balsari et al. (2011), a fixed-effects panel data model was used to control for unobserved factors that differ across cases but remain constant over time.

Research Findings and Discussion

Descriptive Analysis

Descriptive statistics for the variables used are shown in Table 4. The analysis in Panel A revealed that 52.7% of the observations indicate financial distress conditions throughout the period. Panel B presents the results for fraud diamond factors: pressure, opportunity, rationalisation, and capability. The mean for pressure represented by asset growth is 0.095, with a maximum value of 9.384 and a minimum value of -7.611. The result indicates that the observations have very low average financial stability, leading to higher pressure among

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financial distress firms. A total of 21.2% of the observations were linked to firms that employed high-quality external auditors, which may heighten the risk of fraudulent activities. Furthermore, during the observation period, only 13.3% of firms experiencing financial distress switched auditors. However, over the entire study period, 60% of financially distressed firms did undergo auditor changes. These results suggest that while financially distressed firms tend to have lower auditor turnover, they exhibit higher rates of director turnover, implying a greater potential for these firms to engage in fraudulent behavior. The average proportion of Bumiputra directors in the RMC across the sample is 38.8%.

The analysis of the control variables reveals that most financially distressed firms have between six and seven directors, with the number ranging from a minimum of three to a maximum of twelve. On average, the proportion of independent directors on the boards of these firms is 51.9%, indicating that they typically do not comply with the Malaysian Code on Corporate Governance (MCCG), which requires independent directors to make up at least two-thirds of the board. Additionally, the average values for firm size and leverage are 18.027 and 17.481, respectively.

Table 4: Descriptive Analysis

	Mean	Median	Maximum	Minimum	Std. Dev.
Panel A: Dependent Variable					
DISTRESS	0.527	1.000	1.000	0.000	0.501
Panel B: Independent Variable					
PRESSURE	0.095	0.069	9.384	-7.611	1.072
OPPOR	0.212	0.000	1.000	0.000	0.410
RATIONAL	0.133	0.000	1.000	0.000	0.341
CAPABILITY	0.600	1.000	1.000	0.000	0.491
RM_BUMIPUTRA	0.388	0.330	1.000	0.000	0.329
Panel C: Control Variables					
BOD_SIZE	6.745	7.000	12.000	3.000	1.943
INDEPEN_BOD	0.519	0.500	1.000	0.143	0.156
FIRM_SIZE	18.027	18.512	22.411	9.271	2.823
LEVERAGE	17.481	18.207	22.350	8.530	2.901

Source: Authors' Own Work

Univariate Analysis

Table 5 displays the results of the univariate test comparing the financial distress and non-financial distress conditions of PN17 firms. The findings reveal a significant difference between the two conditions in terms of pressure, the percentage of Bumiputra RMC directors, and leverage. Specifically, PN17 firms experience higher pressure, a lower proportion of Bumiputra Malay directors, and higher leverage under financial distress conditions. These results further underscore the role of Bumiputra RMC in mitigating financial distress.

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Table 5: Univariate Analysis

	Financial Distress n = 87		Non-Financial Distress n = 78			Mann-Whitney
	Mean	Median	Mean	Median	t-test	Test
PRESSURE	0.238	0.162	-0.065	-0.039	**0.063**	**0.000**
OPPOR	0.184	0.000	0.244	0.000	0.239	0.398
RATIONAL	0.161	0.000	0.103	0.000	0.274	0.513
CAPABILITY	0.621	1.000	0.577	1.000	0.435	0.504
RM_BUMIPUTRA	0.327	0.290	0.457	0.435	**0.026**	**0.029**
BOD_SIZE	6.632	7.000	6.872	7.000	0.260	0.374
INDEPEN_BOD	3.333	3.000	3.423	3.000	0.172	0.325
FIRM_SIZE	18.055	18.177	17.997	18.882	0.831	0.543
LEVERAGE	17.898	18.392	17.016	17.989	**0.044**	**0.031**

Multivariate Analysis

The multivariate analysis was performed to extend the test on the significant relationship between the study's variables. The results are tabulated in Table 6. Column 1 presents the main regression without control variables. Subsequently, column 2 presents the main regression results with control variables. Column 3 presents the findings from the interaction between the fraud diamond variables and the Bumiputra RMC in relation to financial distress. A positive and statistically significant relationship is found between DISTRESS and PRESSURE (0.178, $t = 1.974$, $p < 0.05$), suggesting that PRESSURE, which reflects financial instability, plays a role in exacerbating financial distress. These results further imply that PRESSURE, as one of the components of the fraud diamond, could serve as a catalyst for financially distressed firms to engage in fraudulent activities. This is consistent with ACPAI (2019), which identified financial instability as a factor that generates pressure on managers to commit fraud.

The positive and statistically significant relationship between DISTRESS and PRESSURE persists even after including the control variable in column 2 (0.182, $t = 1.941$, $p < 0.10$). Additionally, the variable RM_BUMIPUTRA shows a consistently negative and significant association in both column 1 (-0.695, $t = -2.145$, $p < 0.05$) and column 2 (-0.812, $t = -2.134$, $p < 0.05$), indicating that a higher proportion of Bumiputra RMC members is linked to lower levels of financial distress. This supports the view that cultural factors, such as ethnicity, influence firm management practices in Malaysia (Hofstede, 1983). According to Hofstede-Gray's theoretical framework, the Malays, as the dominant ethnic group within the Bumiputra, tend to exhibit more conservative behavior, which is associated with greater risk aversion and, consequently, reduced financial distress. This is in line with the findings of Hegde and Tumlinson (2014), who argued that collaboration within ethnic networks enhances information exchange and mitigates the risks of misconduct and opportunism. Furthermore, the Malays' strong adherence to Islamic beliefs, which discourage uncertainty and risk-taking, may also contribute to this risk-averse tendency, further alleviating financial distress (Ismail et al., 2021).

The study also explored the interaction between the fraud diamond factors and the proportion of Bumiputra RMC members. The findings revealed a significantly negative relationship between OPPOR and DISTRESS (-1.475, $t = -2.333$, $p < 0.05$), indicating that financial distress tends to decrease when firms engage Big Four auditors. Furthermore, the data suggest that a

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higher proportion of Bumiputra RMC members is associated with a reduction in financial distress (-1.707, t = -2.499, p < 0.05). However, the interaction between PRESSURE and OPPOR with RM_BUMIPUTRA yielded significantly positive results for PRESSURE (1.646, t = 2.918, p < 0.05) and OPPOR (2.118, t = 2.021), respectively. These results imply that the negative relationship between PRESSURE and RM_BUMIPUTRA contributes to alleviating financial distress, while the negative association between OPPOR and RM_BUMIPUTRA similarly results in lower financial distress. This suggests that financial instability can still lead to financial distress, even in the presence of a higher proportion of Bumiputra RMC members. Conversely, lower-quality auditors appear to mitigate financial distress when the proportion of Bumiputra RMC members is higher.

In conclusion, the findings highlight the significant role of pressure in shaping financial distress conditions. Even in the presence of a higher proportion of Bumiputra RMC members, pressure remains a driving factor behind financial distress. On the other hand, a greater proportion of Bumiputra RMC members appears to reduce the impact of opportunity on financial distress. These results lend support to the notion that Malaysia's governmental policy of encouraging ethnic segregation in the workplace (Ball et al., 2003) has had an influence on the quality of financial reporting in the country (Herath & Albarqi, 2017).

Table 6. Regression Analysis

Variable	Coefficient 1		Coefficient 2		Coefficient 3	
Intercept	0.170		1.597	*	1.953	**
	0.897		1.837		2.139	
PRESSURE	0.178	**	0.182	*	0.109	
	1.974		1.941		1.161	
OPPOR	-0.152		-0.467		-1.475	**
	-0.621		-1.362		-2.333	
RATIONAL	0.167		0.067		0.016	
	0.574		0.221		0.035	
CAPABILITY	0.235		0.317		0.251	
	1.159		1.461		0.739	
RM_BUMIPUTRA	-0.695	**	-0.812	**	-1.707	**
	-2.145		-2.134		-2.499	
*PRESSURE*RM_BUMIPUTRA*					1.646	***
					2.918	
*OPPOR*RM_BUMIPUTRA*					2.118	**
					2.021	
*RATIONAL*RM_BUMIPUTRA*					0.047	
					0.042	
*CAPABILITY*RM_BUMIPUTRA*					0.344	
					0.447	
BOD_SIZE			-0.058		-0.041	
			-0.875		-0.586	
INDEPEN_BOD			0.001		-0.034	
			0.010		-0.271	
FIRM_SIZE			-0.019		-0.027	
			-0.452		-0.622	

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LEVERAGE			0.000		0.000	*
			1.409		1.791	
Industries			Yes		Yes	
McFadden R-squared	0.055		0.105		0.159	
LR statistic	13.134	**	25.176	**	38.207	***

Conclusion

The effect of fraud diamond factors which are pressure, opportunity, rationalisation, and capability, with financial distress was investigated in this study. In addition, the fraud diamond factors were examined with Bumiputra RMC to investigate whether ethnicity can play a role in mitigating the effect of fraud diamond factors on financial distress. This study sought to examine the impact of Malaysia's distinct institutional environment, characterized by its ethnic diversity, on firms' financial distress conditions. To achieve this, data were collected from companies classified under PN17 status in Malaysia, with a total of 174 firm-year observations spanning from 2014 to 2019.

A significant positive relationship was discovered between pressure and financial distress, which indicates that pressure, as one of the fraud factors, can lead to financial distress, which may eventually lead to fraud. Despite the presence of Bumiputra RMC, which is characterized by conservatism and risk aversion, pressure continues to have an impact on financial distress when interacting with the fraud factors. However, a higher proportion of Bumiputra directors helps to mitigate the effect of opportunity on financial distress. The result indicates that the characteristic of Bumiputra RMC can reduce the opportunity of fraud and financial distress but cannot mitigate the effect of pressure on financial distress. The finding highlights the significant influence of pressure on financial distress conditions. This finding also is consistent with Madah Marzuki (2022), who discovered that ethnicity plays a role in determining accounting practices in Malaysia.

The study's findings imply to the regulators that financial instability is a significant factor in pressuring firms and thus may lead to financial distress. Given that pressure is a key factor in the Fraud Diamond Theory (FDT), it requires particular attention, as it may drive firms to engage in fraudulent activities. Despite the presence of a Bumiputra RMC, which is typically more conservative and risk-averse, pressure continues to influence financial distress, remaining unaffected by the RMC's composition. Nevertheless, a Bumiputra RMC can play an essential role in mitigating the opportunity to commit fraud, which leads to financial distress.

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