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FACTORS INFLUENCING FRAUD OCCURRENCES IN SME EMPLOYEES IN MALAYSIA

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Abstract: *Fraud poses a significant threat to business sustainability, particularly among small and medium-sized enterprises (SMEs), where financial and operational constraints may increase their vulnerability to fraudulent activities. Drawing on the Fraud Triangle Theory, this study examines the relationships between pressure, opportunity, rationalization, and fraud occurrences among employees of Malaysian SMEs. The study also investigates whether religiosity moderates these relationships. Data collected from 266 SME employees in Malaysia were analyzed using PLS-SEM. The findings revealed that pressure and rationalization were significantly associated with fraud occurrences, whereas opportunity showed no significant relationship. Additionally, the estimated interaction between pressure and religiosity was positive, suggesting that the relationship between pressure and fraud occurrences may become stronger at higher levels of religiosity. In contrast, religiosity did not significantly moderate the relationships between opportunity and fraud occurrences or between rationalization and fraud occurrences. These findings provide empirical insights into the applicability of the Fraud Triangle Theory within the Malaysian SME context, highlighting that its determinants do not necessarily exert uniform effects on fraud. The study also offers practical implications for SME management in developing fraud prevention strategies that consider both employees' underlying motivations and individual religious values.*

Keywords: *Employee fraud, small and medium enterprises, SMEs, fraud triangle, Malaysia*

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Introduction

Fraud involves deliberate acts of deception committed by individuals or groups to obtain an unfair or unlawful advantage (Sow et al., 2018). Regardless of organizational size, fraud poses significant challenges to business sustainability, particularly for small and medium-sized enterprises (SMEs). Despite its implications, fraud within SMEs has received relatively limited research attention (Zulkefle et al., 2022). For instance, Sow et al. (2018) examined fraud risks in SMEs but placed greater emphasis on preventive measures rather than the underlying factors contributing to fraudulent behavior. Understanding these factors is essential, as effective fraud prevention requires organizations to first recognize the conditions and motivations that encourage fraudulent activities (Avortri & Agbanyo, 2021; Vousinas, 2019). Accordingly, this study examines the relationships between pressure, opportunity, rationalization, and fraud occurrences among employees of SMEs in Malaysia, drawing on the Fraud Triangle Theory. Furthermore, the study investigates whether religiosity moderates these relationships. The findings are expected to provide insights into the factors associated with employee fraud and assist SME management in developing more targeted fraud prevention strategies.

Theoretical Review and Hypothesis Development

There are several points that will be discussed in the theoretical review and hypothesis development as follows:

Theoretical review

The Fraud Triangle Theory, rooted in the work of Cressey (1953), provides a theoretical foundation for understanding the factors that contribute to fraudulent behavior. The theory identifies three main elements associated with fraud, namely pressure, opportunity, and rationalization. These three elements provide a useful framework for examining fraud occurrences among employees of small and medium-sized enterprises (SMEs). However, the relationships between these determinants and fraud occurrences may also be influenced by individual values and beliefs. Therefore, this study incorporates religiosity as a moderating variable to examine whether it strengthens or weakens the relationships between pressure, opportunity, and rationalization and fraud occurrences. This approach maintains the Fraud Triangle Theory as the theoretical foundation while examining the potential moderating role of religiosity in the Malaysian SME context.

Pressure

Pressure refers to the financial and non-financial demands that may influence individuals to engage in fraudulent activities. These demands may arise from personal financial difficulties, lifestyle expectations, workplace responsibilities, or pressure from external parties (Avortri & Agbanyo, 2021; Vousinas, 2019). Previous studies have highlighted the role of pressure in explaining fraud occurrences. For instance, Avortri and Agbanyo (2021) identified a significant relationship between pressure and fraud, while Alfarago et al. (2023) reported that pressure was an important factor contributing to fraudulent behaviour. These findings suggest that individuals facing various forms of pressure may be more inclined to engage in fraud. Accordingly, the following hypothesis is proposed:

H1: Pressure has a significant relationship with fraud occurrences in SME employees in Malaysia

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Opportunity

Opportunity refers to circumstances within an organization that create possibilities for fraudulent activities while lowering the perceived risk of detection. These circumstances are closely associated with the organization's internal control system. Control practices such as employee supervision, proper documentation, segregation of duties, regular monitoring, and authorization procedures play an important role in either limiting or creating opportunities for fraudulent behavior. Previous research has consistently highlighted the importance of opportunity in explaining fraudulent behaviour within organizations. For instance, Awalluddin et al. (2022) found a significant relationship between opportunity and fraud occurrences. Similarly, Othman and Ameer (2022) reported that opportunity was significantly associated with employee fraud. These findings suggest that organizational conditions that create opportunities for fraudulent activities may influence the likelihood of fraud occurrences. Based on the above discussion, the following hypothesis is proposed:

H2: Opportunity has a significant relationship with fraud occurrences in SME employees in Malaysia

Rationalization

Rationalization refers to the reasoning individuals use to justify their involvement in fraudulent activities. Rather than viewing themselves as wrongdoers, individuals may develop explanations that make their actions seem acceptable or less serious. Some may even downplay the nature of their misconduct to convince themselves that their behaviour is not entirely wrong. Previous research has shown that rationalization is associated with employee fraud (Avortri & Agbanyo, 2021). In addition, Yaylalı (2025) identified inadequate remuneration as a significant factor contributing to fraudulent behaviour, which may also be used by employees to justify their actions. These findings suggest that rationalization plays an important role in shaping individuals' willingness to engage in fraud. The following hypothesis has been established as a result of the above discussion:

H3: Rationalization has a significant relationship with fraud occurrences in SME employees in Malaysia

Moderating Role of Religiosity

Religiosity reflects the extent to which individuals adhere to their religious beliefs and engage in religious practices. It encompasses various dimensions, including religious affiliation, participation in religious activities, and personal beliefs (Shim, 2021). Previous studies have examined the influence of religiosity on fraudulent behaviour. For example, Sharma et al. (2022) reported that religiosity was significantly associated with lower levels of fraud. Similarly, Mahesa et al. (2025) highlighted that employees with stronger religious commitment tend to demonstrate greater adherence to organizational policies, ethical conduct, and better conflict resolution. Therefore, it can be concluded that religiosity can be used as a mechanism to prevent individuals from committing fraud. In fact, several studies have examined the role of religiosity as a moderating variable (Gunanti et al., 2024; Istifadah & Senjani, 2020; Lestari et al., 2024; Utomo et al., 2021). Therefore, this study hypothesizes that:

H8: Religiosity moderates the relationship between fraud determinants and fraud occurrences in SME employees in Malaysia.

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The proposed research framework is presented in Figure 1.

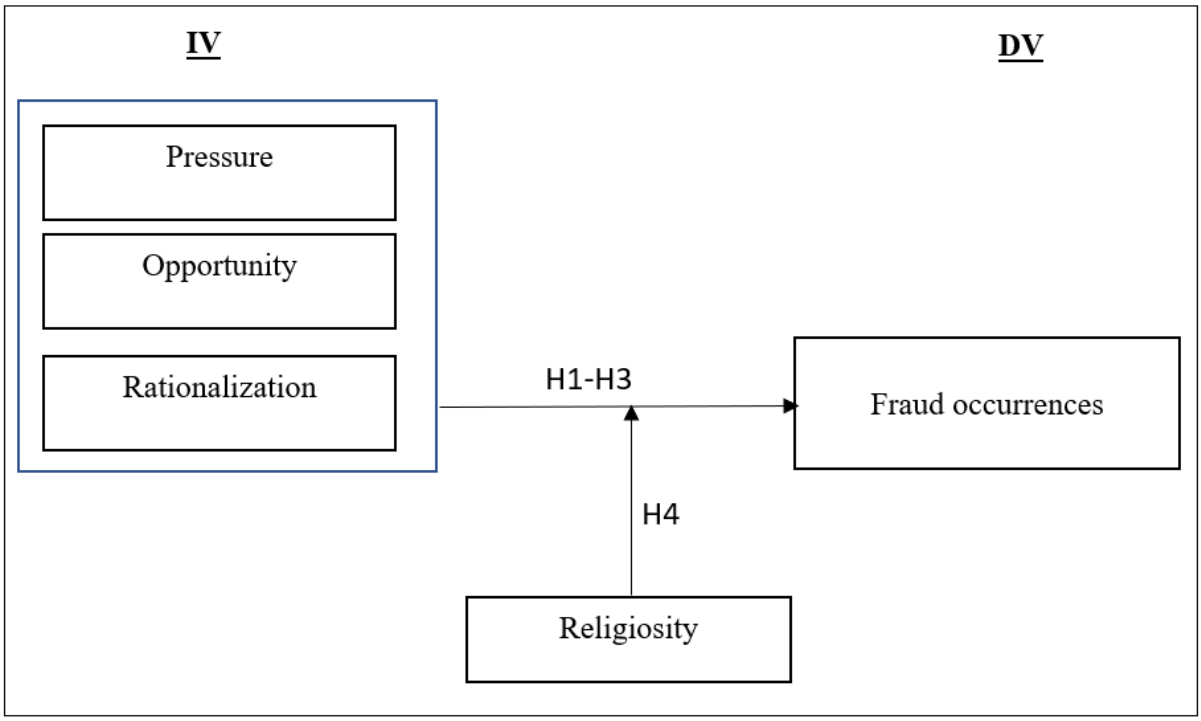


Figure 1: Proposed Research Framework

Source: Developed by the Authors

Methodology

This study employed a quantitative cross-sectional survey design to examine the relationships between determinants of the Fraud Triangle Theory and fraud occurrences among employees of small and medium-sized enterprises (SMEs) in Malaysia. Specifically, the study focused on three determinants, namely pressure, opportunity, and rationalization, while examining the moderating role of religiosity in these relationships. Primary data were collected through a structured questionnaire administered to employees of Malaysian SMEs. A quantitative approach was considered appropriate as the study aimed to empirically examine the hypothesized relationships between the constructs using statistical analysis. The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the direct and moderating relationships.

Population and Target Population

This study focuses on small and medium-sized enterprises (SMEs) operating in Malaysia, specifically those registered as private limited companies (Sendirian Berhad or Sdn. Bhd.). SMEs play an important role in the Malaysian economy, particularly through their contributions to national GDP and employment (DOSM, 2023). The decision to focus on Sdn. Bhd. SMEs was also influenced by their business structure and growth orientation, which may expose them to financial pressures and increasing expectations from stakeholders. Such circumstances may create conditions that heighten the risk of fraudulent activities (Alfarago et al., 2023; Avortri & Agbanyo, 2021).

The target population comprises employees working in Sdn. Bhd. SMEs across Malaysia. Employees from different departments and job positions were considered eligible for

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participation, rather than limiting the study to those involved in accounting or financial reporting. This approach was adopted to obtain a broader understanding of fraud occurrences from the perspectives of employees performing different functions within SMEs. Fraud is not necessarily confined to financial reporting activities, as employees across various organizational levels may become involved in, observe, or become aware of fraudulent practices (Chapple et al., 2020; Sow et al., 2018).

Sampling Technique

This study adopted a non-probability sampling approach using purposive sampling, mainly because a complete sampling frame of the target population was not readily available (Rowley, 2014). To the best of the researcher's knowledge, there is no comprehensive database containing information on all employees working in Sdn. Bhd. SMEs in Malaysia. Although company information can be obtained from SME Corporation Malaysia, the revised data application procedure requires applicants to pay RM10 for each company's information. Obtaining the entire list would therefore involve substantial costs beyond the researcher's available budget. Alternatively, information on Sdn. Bhd. companies can be obtained from the Registrar of Companies (ROC). However, this database covers all registered Sdn. Bhd. companies, including those that do not meet the SME classification criteria. As a result, the list could not be used directly to identify the specific companies relevant to this study. Given these limitations, purposive sampling was considered a practical approach to selecting respondents who met the study's requirements. Accordingly, participants were required to fulfill the following three eligibility criteria:

1. Employees in an SME incorporated as Sendirian Berhad;
2. The number of employees in the firm does not exceed 75 for the services sector and does not exceed 200 for the manufacturing sector;
3. The firm is not a Public Listed Company on the main board of Bursa Malaysia (PLC) and is not a subsidiary of PLC, Multinational Companies (MNC), Government-linked Companies (GLC), Syarikat Menteri Kewangan Diperbadankan (MKDs), and State-owned Enterprises.

The sampling frame was developed by the researcher using publicly available SME directories, including SME Corporation Malaysia, SME Association of Malaysia, and InvestPenang. These websites provided several lists of SME across Malaysia, enabling broad national coverage. The names of companies obtained from these directories were subsequently used to identify the employees.

Data Collection Method

Data were collected through three different approaches to reach SME employees across Malaysia and obtain an adequate number of responses. Using several distribution channels also helped the study achieve the minimum sample size of 199, as determined through G*Power analysis. The first approach involved distributing questionnaires through LinkedIn. Using the available SME company listings, the researcher identified relevant companies and subsequently searched their LinkedIn profiles to locate potential respondents who met the study's selection criteria. This approach enabled the researcher to reach employees working in SMEs across different locations in Malaysia. However, due to LinkedIn's restrictions on the number of messages that could be sent within a certain period, questionnaire invitations had to be distributed in several batches rather than all at once. In total, approximately 800 invitations were sent through this platform.

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The second approach involved distributing questionnaires during the SME Business Talk Series: Empowering AI in Finance and E-Invoicing for SME Businesses, organized by the SME Association of Malaysia in collaboration with the Ministry of Digital. The event was officiated by YB Tuan Gobind Singh Deo, Malaysia's Minister of Digital. With permission from the event organizers, 250 printed questionnaires were distributed to the participants. This provided an opportunity to reach potential respondents directly, particularly those attending an event specifically organized for the SME business community.

The third approach involved visiting SMEs in Ipoh, Perak, to distribute questionnaires in person. A total of 55 questionnaires were distributed, with no more than six sets provided to each company. A cover letter was distributed alongside the questionnaire to explain the study's purpose and assure respondents of anonymity and voluntary participation. Ipoh was selected as an additional data collection location due to the considerable presence of SME-related business activities in Perak. According to The Star (2022), more than 80,000 entrepreneurs were registered in the state's SME database system. This approach supplemented the responses obtained through LinkedIn and the SME Talk event.

Ethical Considerations

Ethical approval was obtained from the National Defence University of Malaysia. Due to the sensitivity of conducting research in fraud contexts, strict protocols were followed. Participation was voluntary, with confidentiality and anonymity emphasized. The questionnaire included study objectives, researcher information, and assurances of data security to foster respondent trust.

Measurement of Variables and Validation of Instruments

The questionnaire was developed by adapting measurement items from previous studies. All constructs were measured using multiple items on a five-point Likert scale. Three independent variables, namely pressure, opportunity, and rationalization, and one moderator variable, religiosity, were assessed. Fraud occurrences served as the dependent variable. The measurement items were selected based on their use in earlier studies and their relevance to the constructs examined.

Before the questionnaire was administered, content and face validity assessments were carried out to evaluate the suitability of the instrument. For content validity, three academics and two industry experts with relevant knowledge of fraud and SMEs were invited to review the questionnaire. Their assessment focused on whether the items adequately reflected their respective constructs and whether the wording was appropriate for the intended respondents. Face validity was subsequently assessed by two employees of Sdn. Bhd. SMEs, who were asked to evaluate the clarity and comprehensibility of the questionnaire items. This process helped establish the suitability of the instrument for data collection among the targeted SME employees.

Pilot Testing

A pilot study was conducted with 50 employees of Sendirian Berhad SME in Malaysia. Previous methodological studies have suggested that exploratory factor analysis (EFA) can be conducted with a sample of 50 respondents under appropriate conditions, particularly when the data demonstrate adequate communalities and a clear factor structure (de Winter et al., 2009; Hogarty et al., 2005). Accordingly, the sample of 50 respondents was considered acceptable for the preliminary EFA conducted in this study. Accordingly, the measurement items were

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examined and refined through reliability and factor analyses, including Cronbach's alpha (α), item-total correlation, and exploratory factor analysis (EFA), to assess their internal consistency and suitability for the study. The Kaiser-Meyer-Olkin (KMO) values exceeded 0.60, while Bartlett's Test of Sphericity was statistically significant ($p < 0.05$) for all constructs. These results indicate adequate sampling adequacy and sufficient correlations among the items, supporting the suitability of the data for exploratory factor analysis (EFA). The EFA results revealed that all items loaded distinctly onto their respective factors, thereby confirming the unidimensionality of the constructs. Nevertheless, six items were excluded from further analysis as their communalities and factor loadings fell below the recommended threshold of 0.50. Reliability analysis was subsequently carried out. The results show that all constructs demonstrated acceptable reliability, with Cronbach's alphas exceeding the recommended minimum value of 0.70. Furthermore, all item-total correlation coefficients exceeded the minimum value of 0.35, suggesting that the retained items were positively associated with their respective scale scores and providing additional support for internal consistency reliability. Therefore, the final set of items retained in each construct satisfied the criteria for factor loadings, communalities, and reliability, and were therefore deemed suitable for inclusion in the main study.

Data Analysis

Both descriptive and inferential statistical analyses were performed. Descriptive statistics were used to describe the respondents' characteristics and assess the distribution of the data, whereas inferential statistics were applied to test the proposed hypotheses. Before proceeding with the main analysis, several preliminary assessments were performed, including checks for missing values, straight-lining responses, outliers, normality, multicollinearity, common method variance, and response bias. These procedures were carried out to identify potential data quality issues that could affect the subsequent analysis. The statistical analyses were performed using the Statistical Package for the Social Sciences (SPSS) version 29 and SmartPLS 4.0.

Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed to examine the measurement and structural models. The measurement model was evaluated in terms of indicator loadings, internal consistency reliability using Cronbach's alpha and composite reliability, convergent validity through average variance extracted (AVE), and discriminant validity using the Fornell-Larcker criterion and heterotrait-monotrait (HTMT) ratio. For the structural model, the assessment covered collinearity using variance inflation factors (VIF), path coefficients (β), statistical significance based on t-values and p-values, and effect sizes (f^2). The moderating effects of religiosity were examined using the two-stage approach, with the significance of the interaction effects assessed through bootstrapping.

Results and Findings

A total of 311 respondents' data were collected. However, nine responses were excluded for failing to meet the required screening criteria. For example, not employed in Sdn Bhd SMEs or did not fulfill SME criteria. Therefore, 302 participants' responses were included for data cleaning (missing data, straight-lining, and outlier detection. After this process, 266 usable responses were retained for further analysis. Subsequently, multivariate assumptions were assessed, including tests for normality, multicollinearity, construct variance, and response bias. Finally, the data were analyzed using SmartPLS for the evaluation of the measurement model and the structural model.

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Evaluation of Measurement Model

Following the guidelines of Hair et al. (2022), the measurement model was assessed for internal consistency reliability and convergent validity using indicator loadings, Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE).

Hair et al. (2022) recommended an outer loading of at least 0.708, as they indicate that the construct explains more than 50 percent of the variance of the indicator. However, Hair et al. (2022) suggested that the indicator with outer loading between 0.4 and 0.7 should be retained if its composite reliability has met the threshold requirement, which is above 0.7. In addition, the indicator that has outer loading below 0.4 should be deleted (Hair et al., 2022). In this study, five items were deleted due to low loadings (below 0.4).

The Cronbach's alpha values obtained in this study ranged from 0.660 to 0.884, all exceeding the minimum acceptable level of 0.60 (Hair et al., 2019; Nunnally, 1978; Sekaran & Bougie, 2016). Similarly, the composite reliability (CR) values ranged between 0.765 and 0.907, meeting the recommended threshold of 0.70 (Hair et al., 2022). These results indicate that the reflective constructs demonstrated satisfactory internal consistency reliability.

The average variance extracted (AVE) values for all constructs exceeded the recommended threshold of 0.50, except for the PRE, with the AVE value of 0.456. According to Fornell & Larcker (1981) and Lam (2012), although the AVE is less than 0.5, the construct can be considered to have adequate convergent validity if the CR is higher than 0.6. In this study, the CR for PRE is 0.787, therefore exhibits sufficient convergent validity. Table 1 presents the results of reliability and convergent validity for this study.

Furthermore, the discriminant validity was assessed using the Fornell-Larcker and heterotrait–monotrait (HTMT) ratio. For Fornell-Larcker, the square roots of AVE are greater than the correlation values among all latent variables. Besides, the HTMT result shows that all respective constructs complied with the HTMT ratio less than 0.85 (strict criterion). Results of the discriminant validity are presented in Table 2 and Table 3.

Table 1: Results of Reliability and Convergent Validity

Construct	Items	Loadings	CA	CR	AVE
PRE	PRE2	0.849	0.660	0.765	0.456
	PRE3	0.575			
	PRE4	0.681			
	PRE5	0.555			
OPP	OPP2	0.585	0.836	0.852	0.540
	OPP4	0.668			
	OPP5	0.702			
	OPP6	0.841			
	OPP7	0.844			
RAT	RAT2	0.693	0.798	0.861	0.557
	RAT3	0.811			
	RAT4	0.815			
	RAT5	0.581			
	RAT6	0.804			

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FO	FO1	0.735	0.884	0.907	0.526
	FO2	0.528			
	FO3	0.625			
	FO4	0.541			
	FO5	0.680			
	FO6	0.848			
	FO7	0.835			
	FO8	0.816			
	FO9	0.827			

Table 2: Results of Discriminant Validity (Fornell-Larcker)

	PRE	OPP	RAT	FO
PRE	***0.675***			
OPP	0.012	***0.735***		
RAT	0.041	-0.150	***0.746***	
FO	0.210	-0.083	0.439	***0.725***

Table 3: Results of Discriminant Validity (HTMT)

	PRE	OPP	RAT	FO
PRE				
OPP	0.117			
RAT	0.154	0.168		
FO	0.250	0.100	0.495	

Evaluation of Structural Model

According to Hair et al., (2019), the collinearity test should be the initial step in model structural testing. In this study, the inner variance inflation factor (VIF) values ranged from 1.130 to 1.828, remaining well below the recommended threshold of 5 (Hair et al., 2022). These results suggest that multicollinearity was not a concern among the predictors in the structural model.

Subsequently, the bootstrapping procedure is used to generate results for each path in the model to test the hypotheses. Table 4 presents the path coefficients (β), t-values, and p-values for each developed hypothesis. In particular, it shows that PRE (β = 0.121, $p<0.05$), OPP (β = 0.031, $p>0.05$), and RAT (β = 0.293, $p<0.05$). Therefore, H1 and H3 are supported, while H2 is not supported. Additionally, the BCa bootstrap confidence intervals for all the significant path coefficients did not straddle zero, affirming the significance of the relationships (Hair et al., 2022).

Next, the moderation effect was examined. As shown in Table 5, PRE*REL → FO (β = 0.142, $p<0.05$), OPP*REL → FO (β = -0.007, $p>0.05$), RAT*REL → FO (β = 137, $p>0.05$. Therefore, H1 is supported, while H2 and H3 are not supported.

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Table 4: Hypothesis Testing Direct Effects

Hypothesis	Relationship	Beta	Std Error	T Values	P Values	BCI LL	BCI UL	VIF	Effect Size		Decision
									f2	Effect Type	
HI	PRE → FO	0.121	0.055	2.211	0.027	0.009	0.223	1.130	0.022	Small effect	Supported
H2	OPP → FO	0.031	0.092	0.336	0.737	-0.105	0.253	1.322	0.001	None	Not Supported
H3	RAT → FO	0.293	0.060	4.851	<.001	0.175	0.411	1.197	0.124	Small effect	Supported

:p<0.1; **:p<0.05;*:p<0.01*
Note: We use a 95% confidence interval with a bootstrap of 10000.

Table 5: Hypothesis Testing Moderation Effects

Hypothesis	Relationship	Beta	Std Error	T Values	P Values	Effect Size		BCI LL	BCI UL	Decision
						f2	Effect Type			
H8a	PRE*REL → FO	0.142	0.065	2.195	0.028	0.025	Strong effect	0.034	0.284	Supported
H8b	OPP*REL → FO	-0.007	0.080	0.086	0.931	0.000	None	-0.171	0.144	Not Supported
H8c	RAT*REL → FO	0.137	0.075	1.289	0.067	0.021	Medium effect	0.016	0.314	Not Supported

Conclusions

Drawing on the Fraud Triangle Theory, this study investigated the relationships between pressure, opportunity, rationalization, and fraud occurrences among employees of Malaysian SMEs. The study also examined whether religiosity moderates these relationships. The findings reveal that pressure and rationalization are significantly associated with fraud occurrences. These results indicate that motivational stressors and cognitive justifications are critical determinants of fraud occurrences among SME employees. These results are consistent with the fraud literature, which emphasizes fraud determinants within organizational settings (Avortri & Agbanyo, 2021; Owusu et al., 2021; Setiawan & Soewarno, 2025; Talib et al., 2024). In contrast, opportunity did not exhibit significant direct effects, suggesting that structural conditions may not independently predict fraud among Malaysian SME employees without the presence of stronger motivational or enabling factors. These results align with mixed empirical evidence reported in recent fraud studies (Aripin et al., 2022; Avitasari, 2022; Lan & Rao, 2025; Maulidiyah, 2024; Setiawan & Soewarno, 2025; Talib et al., 2024).

Furthermore, religiosity significantly moderated the relationship between pressure and fraud occurrences, but the positive interaction coefficient indicates that higher religiosity strengthened rather than weakened this relationship. This counterintuitive finding suggests that religiosity may not uniformly function as a protective factor under high-pressure conditions and may interact with situational stress in complex ways. Lastly, religiosity did not significantly moderate the relationships between opportunity and rationalization, indicating that its buffering role is context-specific rather than universal.

Overall, the findings contribute to the fraud literature by providing empirical evidence from Malaysian SMEs and by highlighting the role of religiosity in the fraud triangle model within this study context.

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