

# Strengthening Public Governance in Democracies: The Influence of Norm Sensitivities on Public Institutions' Resilience to Financial Statement Fraud

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## MOTIVATION

Honesty norms among government officials are crucial to the resilience of democratic institutions against fraudulent behavior [1]. However, New Public Management reforms that focus on enhanced financial reporting and performance indicators may inadvertently increase the risk of financial statement fraud in public entities [2].

## OBJECTIVE

Our objective is to assess the influence of norm sensitivities on the resilience of public institutions to financial statement fraud.

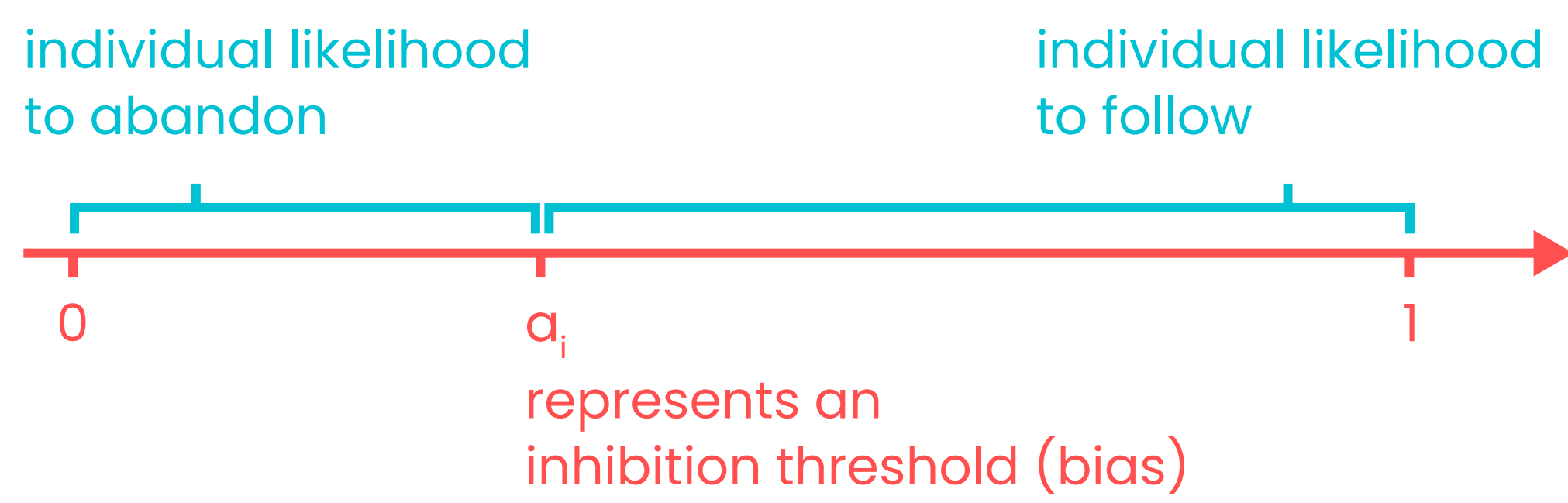


Figure 1: Norm sensitivities reveal individual tipping points for adhering to or abandoning social norms (threshold concept) [3,4,5,6].

## CONTRIBUTIONS

- 1 We introduce a measurement of norm sensitivities that can be employed in vignette surveys [9].
- 2 We propose a novel multi-method approach, combining empirical measurements of norm sensitivities with an agent-based simulation. This approach permits the identification of organizational tipping points and conditions at which institutional resilience against fraud is observed to vary [9].

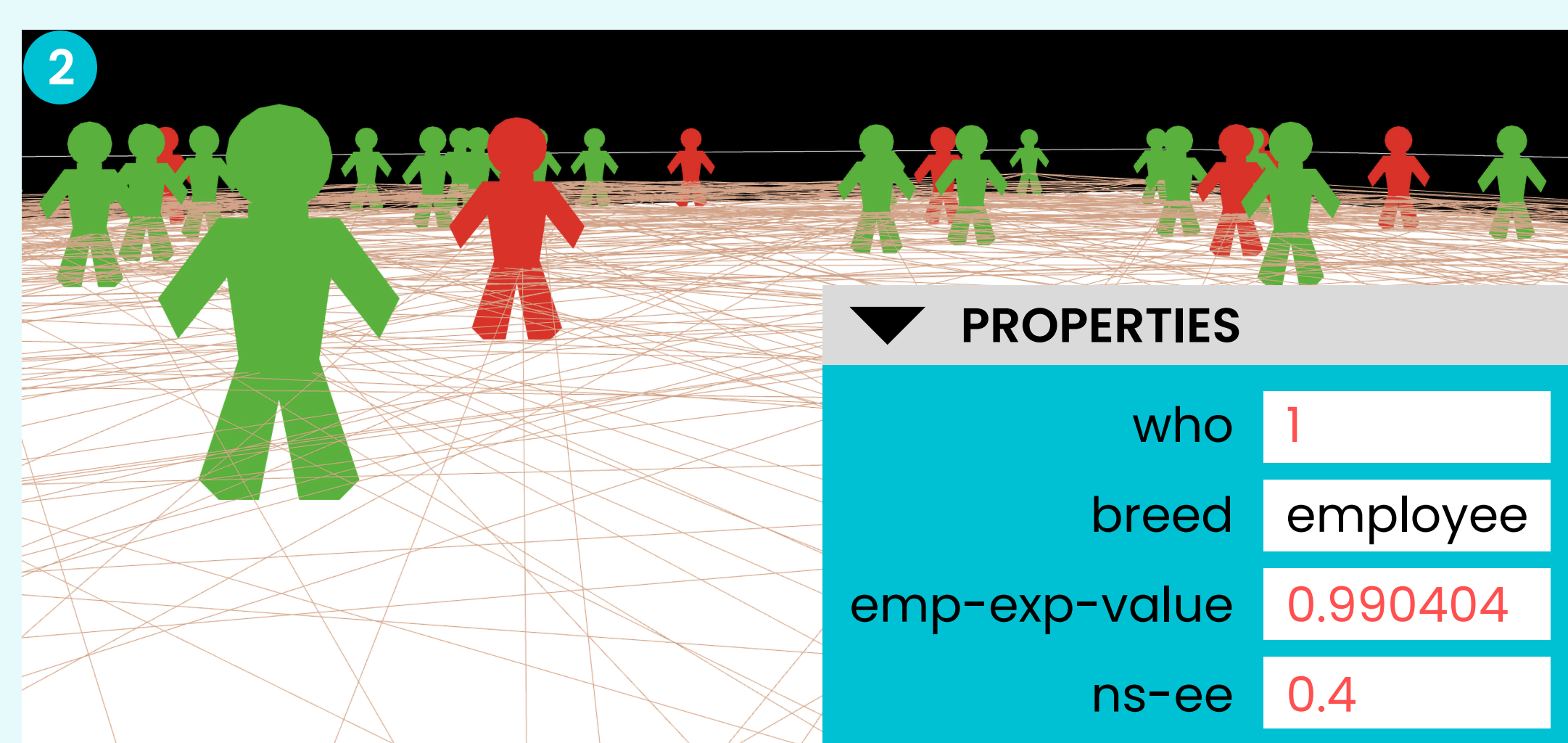


Figure 3: The artificial agents in our simulation draw individual values (ns-ee) from the measured norm sensitivity distribution. When an agent's empirical expectation (emp-exp-value) exceeds its individual norm sensitivity, the agent adheres to the honesty norm (green). Otherwise, the agent acts as a fraudster (red).

## METHOD

We conduct an online vignette survey to reduce social desirability bias when investigating sensitive topics such as financial statement fraud [7,8].

### VIGNETTE

Laura is an accountant ...

### WARM-UP QUESTION 1

If Laura believes that none of her colleagues have recorded the business transaction in {the correct period}, would she then record the business transaction in {the correct period}? [Yes] [No]

### WARM-UP QUESTION 2

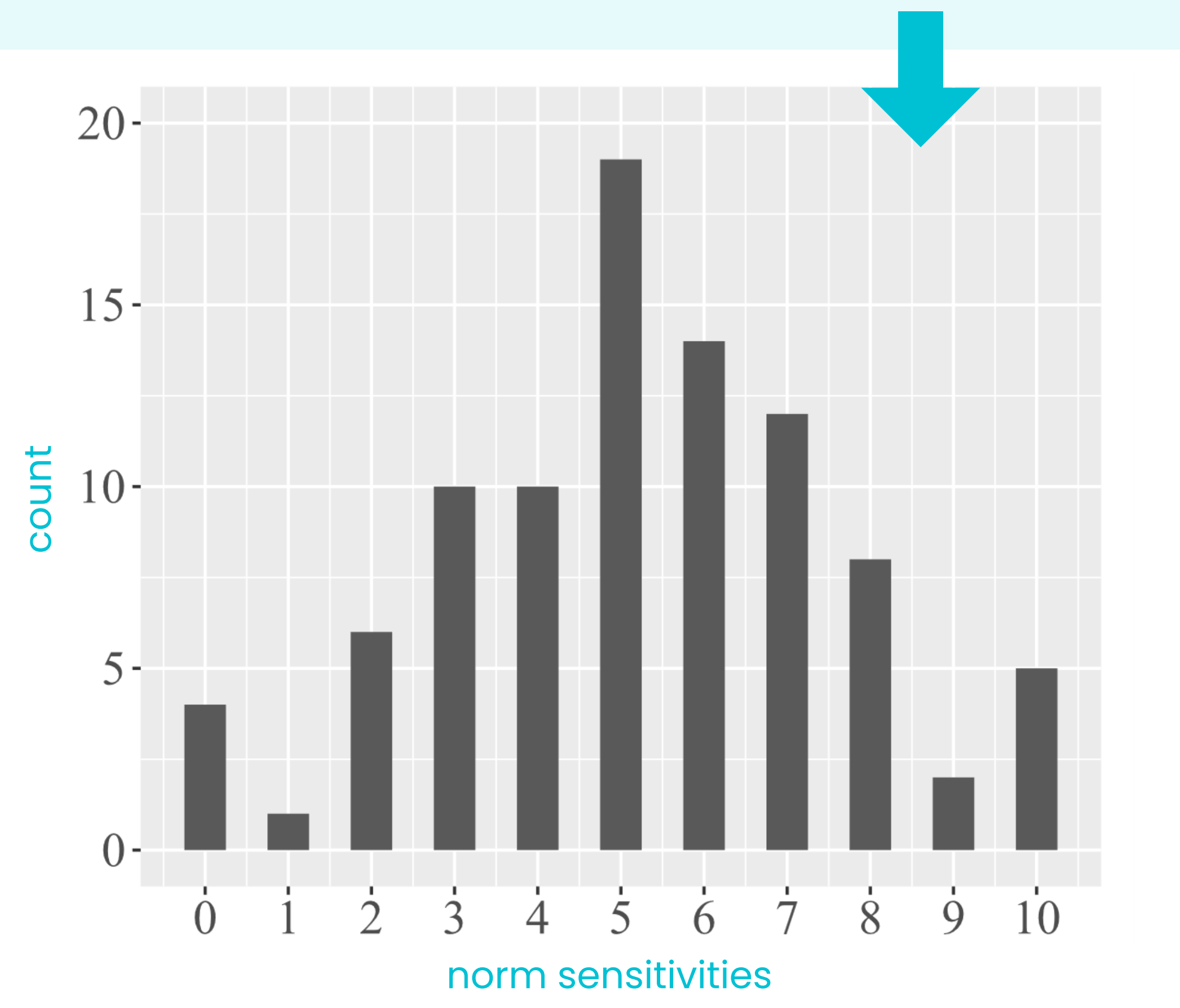
If Laura believes that all of her colleagues have recorded the business transaction in {the correct period}, would she then record the business transaction in {the correct period}? [Yes] [No]

### MEASURING NORM SENSITIVITY – QUESTION 3

adapted from [9]

Out of her 10 colleagues, how many does Laura need to believe have recorded the business transaction in {the correct period} for her to do so as well?

<No. of colleagues>



### LEGEND

- Laura fields subject to experimental variation
- {the correct period} action coded as honesty
- [Yes] selection option
- <No. of colleagues> input field

Figure 2: Excerpts from our vignette survey (above) and norm sensitivities measured in our pre-study [9] (left).

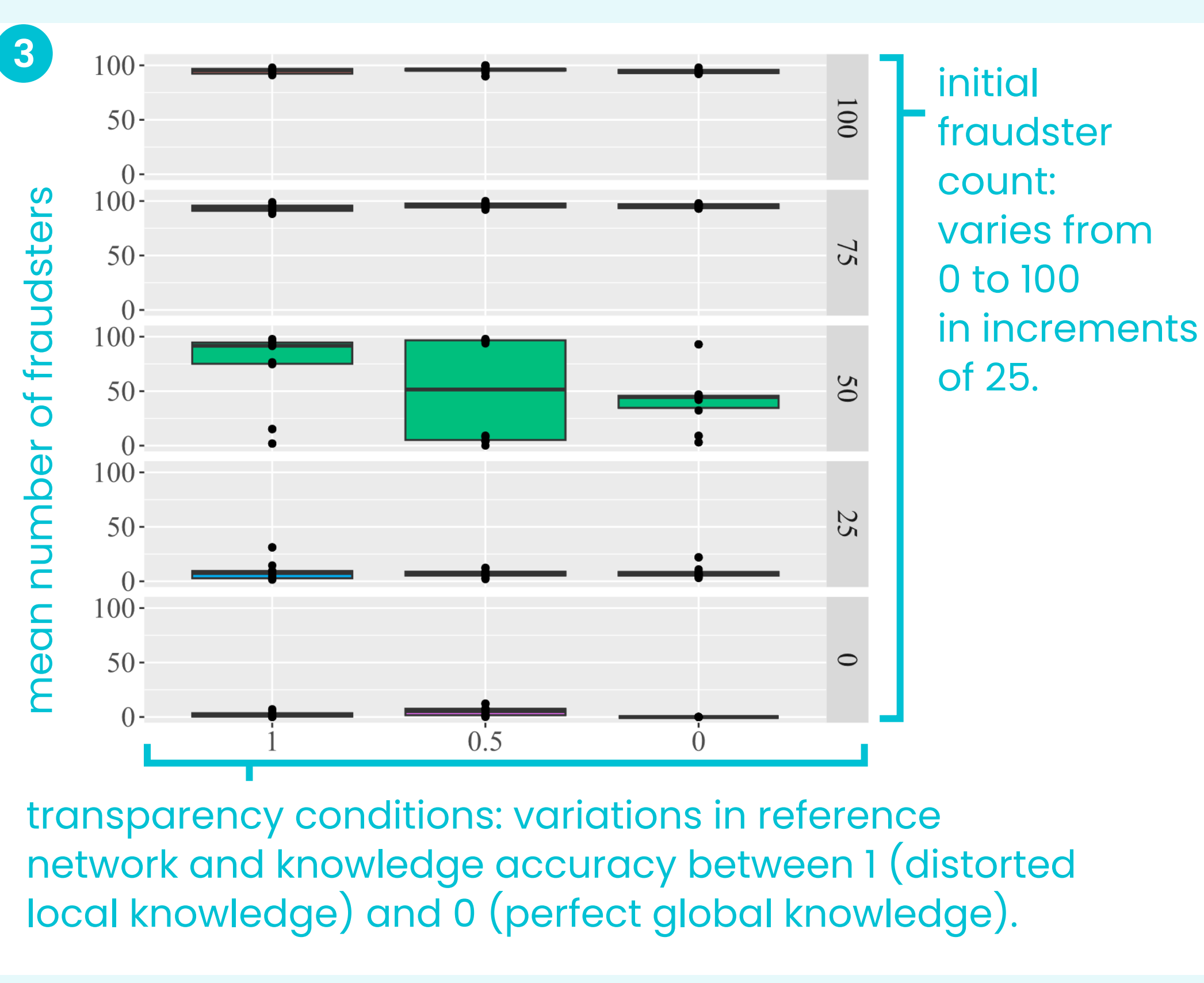


Figure 4: Average institutional resilience against fraud is high across all transparency conditions with few initial fraudsters. As the initial number of fraudsters increases, resilience decreases, with fully transparent institutions performing better than closed ones. Beyond a certain point, resilience is minimal across all transparency conditions.

## REFERENCES

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