

THE ROLE OF LEADERSHIP, CORPORATE CULTURE REINFORCEMENT, AND HUMAN CAPITAL DIVISION IN PREVENTING FRAUD STUDY ON ISLAMIC BANKS

✉ Ade Yuliar, Dita Andraeny

Institut Agama Islam Negeri (IAIN) Surakarta, Indonesia

ARTICLE INFORMATION

Article History:

Received May 24, 2019

Revised July 8, 2019

Accepted Dec 27, 2020

DOI:

10.21532/apfjournal.v5i2.161

ABSTRACT

The rapid growth of Islamic Banking in Indonesia raises the risk of fraud as happened in Islamic Bank X in the last few years, in which the trend continues to increase. This study aims to unravel the root of fraud problem in Islamic Banking and strive to provide appropriate solutions in the prevention of fraud through qualitative approach. This study provides a formulation of role model and leadership policy through the reinforcement of organizational culture and the role of Human Capital Division as a step in the prevention of fraud.

Keyword: Role Model, Organizational Culture, Human Capital Policy, Fraud

1. INTRODUCTION

The growing development of the Islamic banking industry and the increasing number of Islamic Banking offices also encourage the emergence of issues regarding human resources. Viewed from a quantity perspective, the number of employees of Islamic Commercial Banks (*Indonesian: Bank Umum Syariah /BUS*) and Islamic Business Units (*Indonesian: Unit Usaha Syariah/UUS*) in Indonesia until June 2016 reached 54,923 people, meanwhile Islamic Community Financing Banks (*Indonesian: Bank Pembiayaan Rakyat Syariah / BPRS*) reached 4,495 people (Islamic Banking Statistics, 2016). The large number of employees will certainly raise the risk of fraud committed by internal employees of Islamic Banking itself, including fraud cases that occurred in Islamic Bank X, one of the largest Islamic Banks in Indonesia.

Islamic Bank X currently employs approximately 17 thousand employees spread across 700 outlets throughout Indonesia. Over the past few years, there have been found various violations or

fraud committed by employees. This certainly results in losses for the company. Fraud findings that are used as reference data are sourced from online media. Nevertheless, there are still many cases of fraud that occur but are not publicized by the media. The precautionary factor is the concern of Islamic banks regarding the problem of fraud because it is closely related to the public trust in banking institutions. The chronology of fraud cases at Islamic Bank X over the past few years is as follows (Appendix 1).

Based on the data above, the most common mode of fraud was regarding fictitious lending. The fraud cases involved the Islamic Bank employees, especially policy makers / leaders. Then the scenes were identified from big cities to regions. These cases need serious attention because the fraud cases occurring in Islamic Banks are not the same as the fraud cases occurring in Conventional Banks. Then the question is: "how is the empowerment of sharia aspects carried out by the company toward this phenomenon".

✉ Corresponding author :

Email : adeyuliar2107@gmail.com

There are three aspects why fraud cases occurred at Islamic Bank X, based on observation results.

The Islamic banking system was not yet stable. In 2010 (the initial example of fraud cases) until 2013 were the years where there were many cases of fraud. This is because during these years the information and technology systems or core banking systems were still not integrated, so that it was prone to burglary

Human resources were still inadequate. The number of qualified human resources at Islamic Banking was still limited. In recruitment process, the Islamic Bank still employed a lot of employees who had experienced before. Culturally, it could be different, especially ex-conventional banks. And in religion aspect, it could also be different.

Employee lifestyle, it is undeniable that an excessive lifestyle opens the way for fraud.

In this case the risk mitigation aspects of supervision of the leadership were still weak. The leaders could not be role models, because some of them still abused their authority. Such a condition encourages the study to find out appropriate solutions for preventing fraud and focusing on the role of leaders.

2. LITERATURE REVIEW AND HYPOTHESIS

Leadership is an important element in a leader. A leader has an important role in determining the progress or failure of an organization / company. A company can grow and develop well because the leader can stimulate the work spirit of human resources so that the company's performance always increases. According to Stoner, managerial leadership can be defined as a process of directing and giving influence to the activities of group members whose duties are related to each other. Therefore, the leadership model can influence subordinates to form harmonious cooperation to achieve company goals. In order for the company's vision to be

achieved, a leader must be able to be a role model for his subordinates.

One of important components in a company is the presence of a corporate culture consisting of several corporate values. Brown (1998: 306) states that organizational culture refers to a system of shared meanings embraced by members of an organization and distinguishes the organization from other organizations. Values in organizational culture can act as a source of important strength that is widely believed and adhered to in facing the challenges of environmental change. But organizational culture can be a burden for success if the organizational culture is not in accordance with the goals of the organization. Organizations that are able to achieve and maintain success are characterized by the following organizational culture:

- The core values of the organization are strongly embraced by members of the organization;
- There are general perceptions that are believed and upheld jointly by members of the organization;
- Culture is considered a source of important and valuable strength;
- Everything is regulated and runs well based on organizational cultural values;
- Existing cultural values are shared widely within the organization;
- Members of the organization feel bound to the core values that exist in organizational culture.

The function of the Human Capital Division as an employee relationship needs to be put forward as a party that prioritizes the welfare of employees which will affect the increasing productivity of the company. So Human Capital Division needs to make changes in terms of the quality of business process services including by making or updating products in Circular that support the welfare of employees.

The indicator of a weakened organizational culture in an organization is the emergence of fraud cases. According to the

Association of Certified Fraud Examiners (ACFE), the three main branches of fraud tree are (a) fraud in the form of corruption, (b) fraud in the form of asset embezzlement, (c) fraud in financial statements

In general, fraud occurs because of three factors:

- Opportunity. This opportunity usually arises as a result of weak internal control system in the organization. The opportunity can also make individuals or groups, who previously had no motive to commit fraud, finally commit fraud.
- Incentives or pressure. For example, pressure can arise due to personal financial problems and bad qualities such as gambling, drugs, excessive debt and lifestyle, and unrealistic deadlines and work targets.
- Attitude or rationalization to justify fraud.

3. RESULT AND DISCUSSION

Role Model of a Leader

The leader (Division Head, Branch Head or manager level) is the first person who internalizes cultural values and anti-fraud values and subsequently disseminates and doctrines the anti-fraud cultural reinforcement to subordinates. In this case, role model is needed so that the whole process can be accepted by employees.

The implementation of corporate culture and anti fraud doctrine in Islamic Banks must be supported by all organizational structures, from top to bottom. Each head of the work unit (leadership) is automatically responsible and becomes a role model for his subordinates. The Board of Directors acts as a Change Leader and is followed by the Head of Division or Regional Head as a Change Champion. The implementation is carried out by the Corporate Culture Team. The derivation of these programs is further socialized by Change Agents consisting of Head of Department, Head of Branch Office, Head of Sub-Branch Office, Unit Manager and Section Head. The target of the change is all employees of the Islamic

Bank. With a structural organization, it will be easier to monitor the course of the cultural program.

The following is a scheme of the relationship between role models and corporate culture that is implemented in the program of cultural values reinforcement in Islamic Bank (Figure 1).

The Role of Human Capital Division

Based on the results of a survey conducted by the Human Capital Division in 2008 and 2009 at Bank Syariah X, the criteria for employee satisfaction with the Human Capital Division are in the criteria of "Fairly Satisfied". This shows that the role and function of Human Capital Division is not yet optimal.

The survey results on the Human Capital Division service show that the service satisfaction index decreased by 5.76%. This is because the Human Capital Division does not focus on service and employee satisfaction. Meanwhile, customer satisfaction did not increase, or in the category of "fairly satisfied". So, it can be concluded that if the Human Capital Division does not show improvements to services, it will have long-term consequences, especially with the existence of errors in service procedures that result in fraud.

The survey results on the Human Capital Division service show that the service satisfaction index decreased by 5.76%. This is because the Human Capital Division does not focus on service and employee satisfaction. Meanwhile, customer satisfaction did not increase in the category of "quite satisfied". So it can be concluded that if the Human Capital Division does not show improvements to services, it will have long-term consequences, especially with the existence of errors in service procedures that result in fraud.

The effect of fraud is not felt in the short term because fraud will be known precisely after the next few years, such as fraud cases that appeared in 2010-2013. The

Figure 1. **The Program of Cultural Values Reinforcement in Islamic Bank**

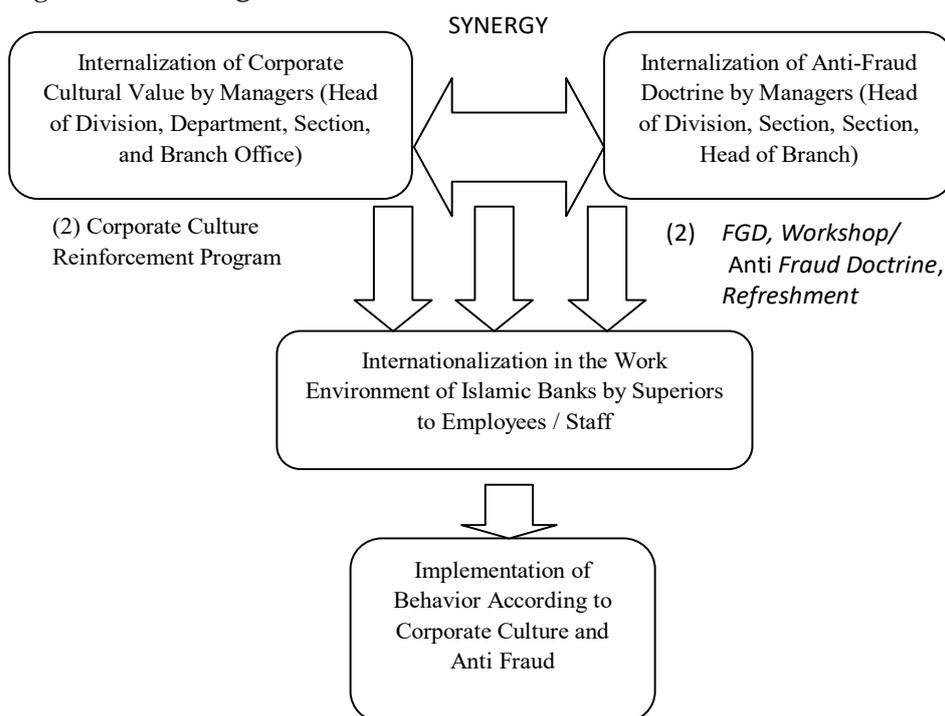


Table 1. **Human Capital Division**

Human Capital Division	5	4	3	2	1	Total
Service Satisfaction Index in 2008	15.97%	31.78%	20.47%	3.25%	0.41%	71.88%
Service Satisfaction Index in 2009	7.06%	28.34%	24.67%	5.55%	0.50%	66.12%
Service Satisfaction Index In 2008 and 2009	Fairly Satisfied					

Source: Survey of Human Capital Division services at Islamic Bank X in 2008 and 2009

cause could also be from Human Capital Division services that were not maximized in 2008. Fraud will be revealed after the company conducts an internal audit, in which the fraud cases are finally found. So, Human Capital Division programs must be designed by taking into account the facts of business processes in the field so as to create fair policies.

Internalization of the Reinforcement of Anti-Fraud Culture and Doctrine at Islamic Bank

Anti-Fraud culture and doctrine reinforcement programs must contain the values of transparency, independence, accountability, responsibility and fairness

through various socialization programs to all levels of the bank structure. The description of the principles of good corporate governance has been carried out, among others, by including these values into the Islamic Bank’s Vision and Mission, Good Corporate Governance, and Code of Conduct so that the policy of anti-fraud culture and doctrine reinforcement runs optimally. Furthermore, after being implemented thoroughly, the work productivity of employees will increase by itself.

Scheme of the Role of Role Model and Human Capital Division in the Prevention of Fraud in Islamic Banks

Explanation of the process of Human Capital Division steps and organizational culture reinforcement programs in the prevention of fraud.

4. CONCLUSION

The development of Islamic Bank X needs to be encouraged, especially in fraud prevention. So, organizational culture and anti-fraud doctrine must be reinforced in all levels of organizational structure, from top to bottom. Each head of work unit (leadership) is automatically responsible and becomes a role model for his subordinates. In addition, it should be strengthened by the support from the leader through Human Capital Division policies that favor employee welfare.

REFERENCES

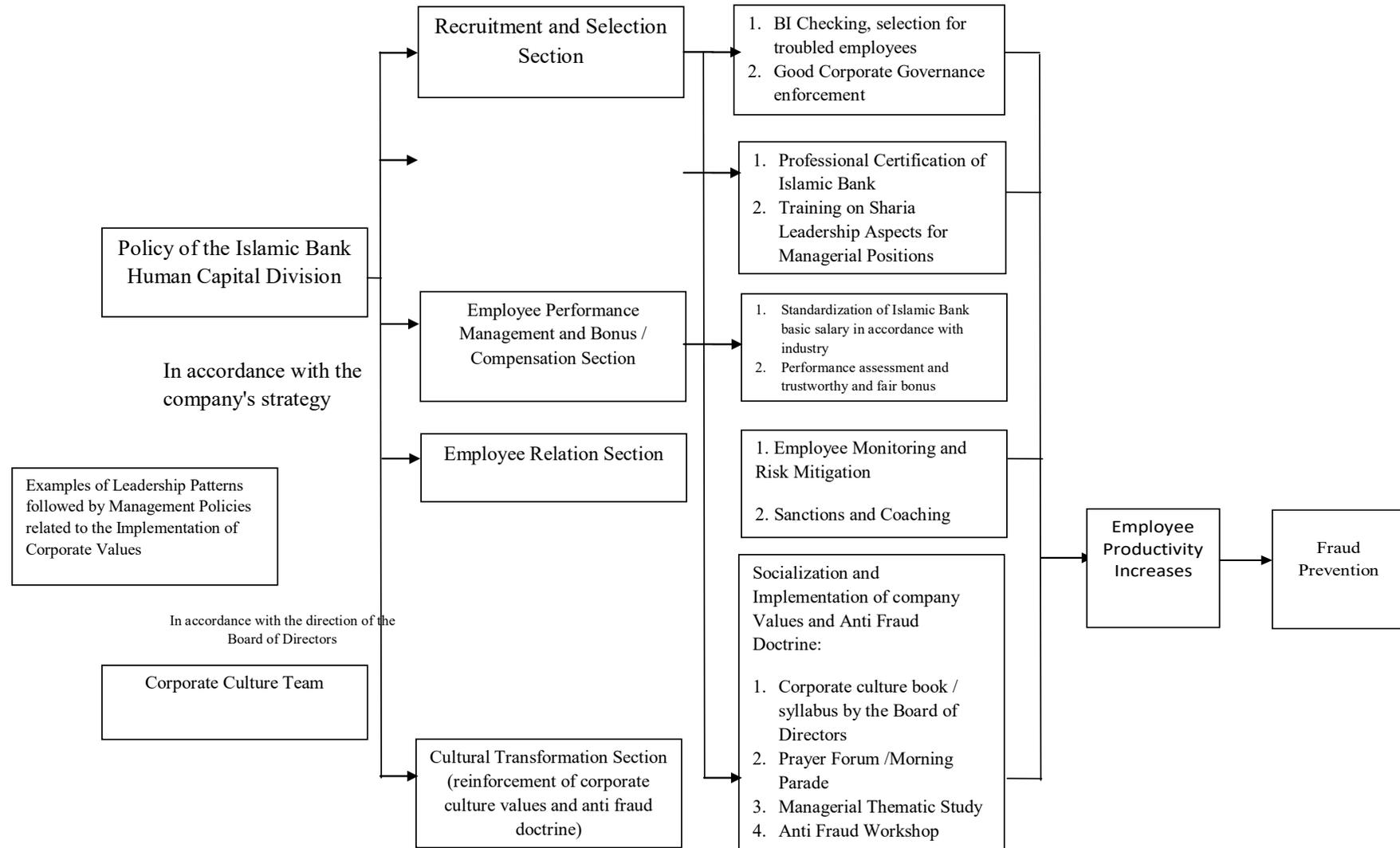
- T Hani Handoko. Manajemen. BPFE Yogyakarta
- Brown, A. *Organizational Culture*, Harlow, Pearson Education Limited, hlm. 306.
- Otoritas Jasa Keuangan. (2016). Statistik Perbankan Syariah Juni 2016. Diakses dari www.ojk.go.id pada 29 Agustus 2016.
- Punaji,. 2010. Metode Penelitian Pendidikan dan pengembangan. Jakarta: kencana
- Wibowo. *Manajemen Perubahan*. Rajawali Pers. 2007

Appendix 1.

No	Place and Year of Fraud Incident	Types and Chronology of Fraud	Source of Information
1	Branch Office Sampit, 2017	The case of alleged fictional housing loans with a loss of up to IDR 33 billion. The perpetrator was internal employee	www.prokal.co
2	Sub-Branch Office Banyumanik Semarang, 2017	The case of fictitious credit financing with a loss of tens of millions of rupiah. The perpetrator was the outsourcing employee in marketing	www.jowonews.com
3	Sub-Branch Office Liwa, Lampung, 2016	The case of embezzlement of customers' savings funds and operational funds for the office where the suspect worked, with a loss of IDR 2.263 billion.	www.teraslampung.com
4	Branch Office Medan, 2015	The case of alleged fictitious credit, with a loss of IDR 11.9 billion. The perpetrator was the former Branch Head	www.jurnalasia.com/
5	Branch Office Padang, 2013-2015	Cases of certificate forgery, savings transfer, withdrawal of customer funds without the customer's knowledge, etc., with an operational loss of approximately IDR 4 billion. The perpetrator was a former Customer Service Officer (CSO)	www.harianhaluan.com
6	Branch Office Jayapura, 2010-2014	The case of Money Laundering, with a loss of IDR 12 billion. The perpetrator was the head of the Sub-Branch Office	www.lingkarpapua.com
7	Branch Office Gatot Subroto Jakarta, 2014	The case of embezzlement and document forgery, with a loss of IDR 50 billion. The perpetrators were marketing manager and trade specialist officer	www.megapolitan.kompas.com
8	Branch Office Harapan Raya Pekanbaru, 2010-2013	The case of money laundering (fictional credit financing), with a loss of IDR 7 billion. The perpetrator was a former Branch Manager	www.goriau.com
9	Sub-Branch Office Amplas Medan, 2012-2013	The case of fictitious credit financing, with a loss of IDR 14 billion. The perpetrator was the former Head of the Sub-Branch Office	www.edisimedan.com
10	Sub-Branch Office Tanjung Balai Karimun, 2012-2013	The case of fictitious lending, with a loss of IDR 10 billion. The perpetrator was the former Head of the Sub-Branch Office	www.rasio.co
11	Branch Office Bogor, 2012	The case of fictitious credit financing, with a loss of IDR 102 billion. The perpetrator was the Head of Branch Office	www.megapolitan.kompas.com
12	Branch Office Cimahi, 2011-2012	The case of fictitious people's business lending (KUR), with a loss of IDR 8.5 billion	www.harianwartanasional.com
13	Sub-Branch Office Brebes, 2011-2012	The case of fictitious credit financing, with a loss of IDR 50 billion. The perpetrator was the Head of Sub-Branch Office	www.merdeka.com
	Branch Office TanjungPinang, 2010-2011	The case of alleged granting gratuities for the Anambas Regency Government's short-term deposits amounted to IDR 1.2 billion, The perpetrator was the former Head of Branch Office	www.prokepri.com/

Appendix 2.

Internalization Internalization of Anti Fraud Doctrine



Appendix 3.

Indicator	Program	Explanation
Policy of Human Capital Division:	BI Checking	BI Checking serves as a guide for selecting employees. For example, employees who have poor records in other banks cannot be accepted to work at a new bank.
	GCG Enforcement	There should be no family relations in the selection process, so as to avoid conflicts of interest
	Professional Certification of Islamic Bank	It is hoped that the bankers guarantee professionalism in working in Islamic Banks and not only in the aspect of risk management
	Salary Standardization	Standardization of salaries needs to be coordinated between Islamic financial / banking industries so as not to cause disparity
	Performance Assessment	Performance assessment is carried out on the basis of fairness and openness in accordance with Islamic values
	Employee Monitoring Sanctions and coaching	Employee monitoring is carried out on employees whose work productivity has decreased The enforcement of sanctions and strict guidance for fraud perpetrators
Penguatan Nilai-Nilai Budaya dan Doktrin Anti Fraud:	Book/syllabus	Management as a Role Model needs to be strengthened by making a book / syllabus as a guideline for strengthening cultural values and anti-fraud doctrine. With the book, it is expected that the employees will have a high integration.
	Morning Prayer Forum	This morning prayer forum is expected to be used as an effective communication forum between management and employees, in addition to informing about management activities and messages.
	Managerial Thematic Study	This activity is attended by managers such as the Board of Directors, Heads of Division, Units, or Branch Offices. This activity aims to equalize perceptions between superiors and subordinates. The results are expected to be exemplified to all employees.
	Anti Fraud Workshop	This activity is a socialization of anti fraud doctrine. This activity aims to improve the understanding of the spirit of anti fraud
	Regular Sharing Session in every Work Unit	Regular Sharing Session in every Work Unit functions as a driver of learning culture and consistency of knowledge sharing as a means of knowledge management