

Islamic Human Capital Strategies for Preventing Fraud in Sharia Cooperatives

Yuli Indah Sari^{1*}, Widiyanto bin Mislan Cokrohadisumarto²

¹Department of Economic Education, Universitas Indraprasta PGRI, Indonesia

²Dept. of Management, Faculty of Economics, Universitas Islam Sultan Agung, Indonesia

*Corresponding Author

E-mail: yuliindahsari@unindra.ac.id

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Abstract: The issue of internal fraud hinders the development of this Sharia cooperative. Preventive measures with a new approach are necessary early on to address fraud. This research aims to find a practical model of the role of Islamic human capital development in preventing internal fraud at Sharia cooperatives. The study utilised a qualitative approach with a sample of 7 Baitul Tamwil Muhammadiyah (BTM) affiliated with the Central Java branch of Pusat BTM, Indonesia, selected through purposive sampling. Using in-depth interviews, the research identified a practical model of Islamic human capital development and its role in preventing fraud in the Sharia cooperative. This includes building an Islamic environment, incorporating Islamic values into operational regulations, fostering knowledge sharing, organising structured and independent training, and identifying other factors involved in Islamic human capital development. Spiritual, knowledge, moral, and behavioural approaches were employed to reduce fraud and loss frequency and enhance employee performance. The findings suggest practical implications for Sharia cooperatives in terms of implementing comprehensive human capital development strategies to effectively prevent internal fraud and improve overall organizational performance.

Keywords Sharia cooperative; fraud; prevention; Islamic human capital development

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INTRODUCTION

Sharia cooperatives serve as essential institutions providing financial access to the lower-middle class (micro), playing a crucial role in poverty reduction (Bell, 2018; Fianto et al., 2018; Riwayajanti, 2013). Recognized for offering usury-free financial services (Bin Mislan Cokrohadisumarto Widiyanto et al., 2020), and contributing to the propagation of Islamic principles within society (Sari & Widiyanto, 2019), these institutions are not immune to the persistent threat of fraud, hindering their sustainable development (Sama and Niba, 2016). Despite adhering to Sharia principles, the label does not guarantee immunity from fraud threats, impacting the financial performance of Sharia cooperatives (Chiezey & Onu, 2013).

Fraud risks, whether internal (committed by human resources or HR) or external (by third parties or clients), pose challenges to the operational integrity of microfinance institutions

(Steinwand, 2000). This means that the risk of fraud can originate from internally carried out by HR (from within the institution) and externally by third parties or Sharia cooperatives clients (from outside the institution). In some cases, fraud committed by human resources is more common within microfinance institutions and triggers other risks, such as external fraud. This is because credit committees not only play an important role in reducing credit risk but are also an important element of operational integrity and fraud prevention strategies (Churchill & Coster, 2001). If there is any violation of integrity in the financing selection, the problem will lead to an increase in the risk of financing caused by the client. Finally, the discussion concluded that it turns out that internal fraud is part of HR risk and is one of the types of operational risk faced by all existing organizations.

This study will explore and focus on internal fraud at Sharia cooperatives. Internal fraud is caused by insecure human resources (HR) owned by Sharia cooperatives in carrying out their duties. Komite Nasional Keuangan Syariah (KNKS), (2019) explained that one of the weaknesses of Islamic microfinance lies in human resources. The lack of HR competence and integrity, leading to financial abuse, is identified as a major weakness of these institutions and will cause financial losses on the Sharia cooperatives (Khan, 2012). Therefore, Steinwand, (2000) recommends preventive measures to minimize losses, emphasizing the need for initiatives addressing internal fraud.

Recognizing the close relationship between fraud and HR risks, this study advocates for a preventive approach starting with HR development within Sharia cooperatives. KNKS, (2019) suggests that enhancing the quality and capabilities of human resources is a crucial step in preventing fraud. This aligns with findings by Hendri, Yuliantoro and Ama, (2020), emphasizing the positive impact of HR quality on fraud prevention, while Peicheva, (2012) underscores the vital role of the HR department in fraud prevention through increased training frequency. This shows that fraud prevention on the HR side has led to aspects of HR development.

Despite existing research from Hendri, Yuliantoro and Ama, (2020), the practical processes of developing HR quality and the functions of the HR department remain underexplored and the functions of the HR department, as referred to by Peicheva, (2012) is still a theoretical study and has no focus on aspects of HR development. Addressing these gaps, this study aims to provide a comprehensive model for implementing Islamic human capital development and its role in preventing fraud within Sharia cooperatives, employing a qualitative approach for a practical exploration of the implementation models.

This research aims to bridge the gap in the existing literature by offering a practical exploration of human capital development strategies specific to Sharia cooperatives. The global relevance of this study is underscored by the universal principles of Islamic finance and the common challenges faced by Sharia-compliant institutions worldwide. By examining the dynamics of internal fraud and HR management within the broader context of global Islamic finance, this study provides valuable insights that can be applied to similar institutions beyond Indonesia.

LITERATURE REVIEW

Baitul Tamwil Muhammadiyah (BTM) as Sharia Cooperatives

Sharia cooperatives offer inclusive opportunities for community microfinance services, contributing to economic development and serving as an emerging frontier explored by observers, academics, and practitioners (Harper & Khan, 2017). According to Rahman, Al Smady and Kazemian, (2015), Islamic microfinance converges two rapidly growing industries—microfinance and Islamic finance. Grounded in Islamic principles, these institutions target the micro-community. Obaidullah, (2016) emphasizes that an effective microfinance program involves small, short-term loans, simplified borrower assessments, prompt disbursement of recurring loans after timely repayment, and convenient service locations and times. Given the pivotal role of the Islamic Microfinance Institution (IMFI), it has experienced rapid development in various countries, including Indonesia.

This study focuses on one of Indonesia's Sharia cooperatives, Baitul Tamwil Muhammadiyah (BTM). While BTM operational activities are based on the Baitul Maal wat Tamwil (BMT) model, it specifically concentrates on the "tamwil" house function, providing financial access and channeling financing for the poor. Being under the auspices of the Muhammadiyah Islamic organization, BTM differentiates itself from other special institutions like Amil, Zakat, Infak, Shadaqah Muhammadiyah, or LAZISMU, which perform the "maal" function. Hence, BTM is identified as a microfinance institution catering to the financial needs of the poor and micro-businesses.

The distinctive feature of microfinance lies in its alternative approach to shared responsibility, preventing individuals from entanglement in complex debt schemes and alleviating poverty (Obaidullah, 2016). The concept of equitable risk-sharing prevents people from getting caught up in complicated debt schemes and actually leads them to a deeper poverty line. Also, Given that Islamic banks may not reach the lower echelons of society, microfinance institutions play a significant role in supporting micro-business actors (Suhel et al., 2018). Sharia cooperatives offer financing schemes tailored to the needs of micro-businesses, positively impacting their development and addressing poverty issues (Adnan & Ajija, 2015; Riwayajanti, 2013; B.M.C Widiyanto & Ismail, 2009).

Internal Fraud Prevention and Islamic Human Capital Development (IHCD)

Internal fraud involves intentionally manipulating HR or financial reports to conceal the misuse of assets and achieve personal gain (Boateng et al., 2014). If not managed effectively, internal fraud can lead to financial losses for Sharia cooperatives. Therefore, prompt preventive measures are essential to address these challenges. Fraud prevention, as an integral part of fraud management, requires institutional bodies to adopt proactive tools for preventing, detecting, and halting fraudulent activities within their networks (Eyo Basse, 2018). Meanwhile, according to Hamdani and Albar, (2016) fraud prevention encompasses the establishment of policies, systems, and procedures that support the knowledge and actions needed by the board of commissioners and management to minimize potential fraud incidents. In summary, internal fraud prevention in Sharia cooperatives involves implementing various policies, procedures, and systems to minimize the occurrence and impact of fraud committed by internal parties.

The literature on fraud prevention frequently links it to risk management and good corporate governance. Risk management, as explained by Churchill and Coster (2001), not only

entails preventing potential issues but also early detection of actual problems. Effectively implementing fraud prevention within risk management is a manifestation of the values of good corporate governance, with boards prioritizing risk management to enhance corporate governance in any organization (Grove & Clouse, 2017). OECD (2014) states that corporate governance standards should place sufficient emphasis on risk identification. In addition, Grove and Clouse (2017) underscore the importance of boards paying attention to the prediction of fraud, utilizing both new and existing fraud models. This proactive approach ensures boards are not caught off guard by fraud within the organization, highlighting their responsibility to understand every risk and establish appropriate governance procedures. Thus, fraud prevention is intricately linked to risk management and is a crucial component of good corporate governance within organizations.

Internal fraud is often rooted in dishonest and non-compliant human resources, leading to weak performance implementation and an increased susceptibility to fraud at related institutions (Hendri et al., 2020). Hamdani and Albar, (2016) identify ten factors that can support fraud in an institution, including weaknesses in religious and moral ethics, low education levels, and an unsupportive environment. Mukhibad, (2017) suggests an Islamic approach to enhance the ethics and morals of HR, a sentiment supported by Purnamasari and Amaliah, (2015), who found that religious knowledge and spiritual aspects can improve fraud prevention systems. This underscores the need for a human approach grounded in Islamic values to address the psychological aspects of human resources. Beyond spiritual development, the quality of human resources plays a significant role in fraud prevention (Hendri et al., 2020), and institutions can enhance HR capabilities in risk management through intensive training (Peicheva, 2012) in particular improving human resource capabilities in risk management (Sama & Niba, 2016). Based on the above discussion, a conclusion emphasizes fraud prevention with a human approach to spiritual development, knowledge, and behaviour. Therefore, Islamic human capital development (IHCD), referred to in this study, is all policies and procedures used to develop human resources, especially in improving spiritual aspects, knowledge, and improving HR behaviour.

Abdullah, (2012) articulates that the purpose of Islam in developing human resources is to enhance capabilities and skills to provide better service to the community, ultimately fulfilling the obligations of maintaining the earth and worshipping Allah SWT. Islam views human capital with an emphasis on intellectual, emotional, and, most importantly, spiritual aspects (Thaib, 2013). In essence, an individual at Sharia cooperatives is considered better if they possess technical knowledge, skills, and good values as dictated by Islam. Human capital development efforts are crucial for preventing harmful fraudulent acts and are undertaken to preserve Sharia cooperatives' ability to serve those in need

METHODOLOGY

The research employs a qualitative approach through in-depth interviews to derive a model based on real-world implementation. Purposive sampling was employed, selecting Baitul Tamwil Muhammadiyah (BTM) affiliated with Pusat BTM in Central Java, characterized by substantial development and minimal instances of fraud based on recommendations from Pusat BTM. Each BTM nominated one manager as a data provider. Seven BTM Headquarters in Central Java (specifically Pekalongan, Pemalang, Batang, Kaliwungu, Temanggung, Magelang,

and Banjarnegara) were included as samples in this study. To ensure the model's credibility and validity, a member check process was conducted, involving a discussion of the model with the data providers. Upon approval and alignment with the practical implementation in the field, the model was deemed "valid" (Moleong, 2018).

In addressing the limitations of this methodology, it is important to note that the use of purposive sampling may limit the generalizability of the findings beyond the selected BTM affiliates. However, this limitation was mitigated by ensuring that the chosen BTMs represented a diverse geographical and developmental range within Central Java. Additionally, the selection of informants was justified based on their direct involvement in managerial roles at BTM branches, ensuring their firsthand experience and insights into the implementation of the model.

RESULT AND DISCUSSION

Informant Background

The BTMs examined in this study are derived from seven headquarters affiliated with Pusat BTM in Central Java, specifically Pekalongan, Pemalang, Batang, Kaliwungu, Temanggung, Magelang, and Banjarnegara. Each BTM nominated one manager as a representative for the interview process. Through discussions in the field, it was discovered that two BTMs, namely the Head Offices of BTM Pemalang and Temanggung, hold the status of a Sharia Microfinance Institution and are accountable to the Otoritas Jasa Keuangan (OJK). In contrast, the remaining five BTMs (Pekalongan, Batang, Kaliwungu, Magelang, and Banjarnegara) are recognized as Sharia Financing Savings and Loan Cooperatives (KSPPS) under the auspices of the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM).

Affiliated with Muhammadiyah, BTM operates within a structured network, encompassing Primary Branch, Primary Headquarters, "Pusat BTM" Central Java as a Regional Secondary Cooperative, and "Induk BTM" as a National Secondary Cooperative. A decree from Muhammadiyah stipulates that each city can have only one Head Office, leading to the merger of several BTMs. This strategic consolidation aims to fortify BTMs' presence, mitigate potential competition among BTMs in a given area, and address crises faced by specific BTMs.

Fraud in Sharia Cooperatives

The management of fraud at BTM is characterized by two distinct features: material and non-material. Material fraud involves immediate tangible losses affecting BTM's financial performance, such as mismanagement of savings, corruption, unpaid financing installments, and asset misuse. On the other hand, non-material fraud is associated with data manipulation and long-term financial losses, including improper financing approval, withdrawal of fictitious savings, fictitious financing (fabrication of financing data not reflecting actual BTM data), non-compliance with SOPs, manipulation of slips/bills, and fraudulent financial reporting.

Discussions in the field have revealed that BTM employs different detection capabilities in response to these two types of fraud. Material fraud is easily detected early by BTM, whereas non-material fraud provides a more extended grace period for detection. BTM acknowledges various factors contributing to the weakness of the fraud detection system, such as (1) insufficient knowledge in managing the BTM operational system, (2) minimal and inconsistent supervision, (3) BTM's continued reliance on manual processes without the implementation of

a centralized and authorized Information Technology (IT) system, and (4) instances of human resource intervention and unprofessionalism in financing procedures. Many of these issues arose before the BTM merger, contributing to crises in several BTM branches. Thus, the merger policy is deemed a prudent decision to address these challenges.

Furthermore, field discussions also indicate that prioritizing fraud handling for specific types of fraud, which occur frequently, may inadvertently trigger the potential emergence of new fraud patterns. This underscores the importance of fraud prevention not only focusing on common types of fraud but also considering other potential fraud types when formulating prevention policies.

Reasons for Implementing the IHCD Policy as Fraud Prevention

All informants have contended that Islamic human capital development plays a pivotal role in fraud prevention. Central to human capital management is the elevation of individual spiritual awareness, aimed at refining individual morals and behavior. The Islamic approach strives to instill spiritual awareness, emphasizing that individuals are inherently capable of distinguishing between good and bad deeds, guided by the knowledge that Allah is omnipresent. This spiritual approach is anticipated to elevate individual morality and integrity, fostering a more responsible and professional work ethic.

Moreover, this developmental paradigm is dedicated to nurturing the morals and proficiency of human resources within BTM through a spiritual framework to achieve commendable performance. Field discussions underscored the significance of Human Resources (HR) as the bedrock of an institution, serving as users who navigate the institutional system. Regardless of the effectiveness of the implemented system, its utility is contingent on the possession of virtuous morals by the human resources. Furthermore, this policy is instrumental in acquiring trustworthy and responsible human resources, subsequently enhancing public trust and bolstering BTM's reputation as a reliable institution. However, effective development necessitates an accompanying robust monitoring system. Thus, within the framework of fraud prevention, Islamic Human Capital Development (IHCD) is defined as an Islamic approach aimed at augmenting the spiritual, knowledge, moral, and behavioral facets of employees, acting as a deterrent against fraudulent behavior.

IHCD Pattern in Sharia Cooperatives

Based on intensive interviews with the sources, the IHCD pattern implemented in the operational aspects of Sharia cooperatives can be categorized into several essential aspects, including building Islamic environment; embedding Islamic Value in operational regulation; building knowledge sharing culture; independent and structural training with the support of the cooperative network (Table 1).

Table 1: IHCD Pattern and Practice in Sharia Cooperative

| Aspects | Explanation | Practical Activities | Effect |
|--|---|---|---|
| Building Islamic environment | The implementation of a series of policies or actions aimed at creating a work atmosphere in accordance with Islamic principles. | <ol style="list-style-type: none"> 1) Conducting routine studies: Regular religious knowledge improvement activities to cultivate a deeper understanding of Islamic values. 2) Mutual reminders in kindness: Providing moral support to foster positive attitudes and cooperation. 3) Tadarus activities before/after work: Organizing group Quran reading sessions before or after work to create an environment filled with blessings and spirituality. 4) Dhuha prayer activities: Engaging in additional worship during work activities, strengthening spiritual connections, and enhancing awareness of Islamic values. 5) Providing ethical advice and motivation: Leaders offering ethical and Islamic advice or motivation to guide and empower employees in fulfilling their duties. | Preventing fraudulent behavior through a spiritual approach |
| Embedding Islamic Value in operational regulation | The implementation of values such as honesty, integrity, justice, and responsibility in every operational aspect of the Sharia cooperative. | <ol style="list-style-type: none"> 1) Working According to Job Responsibilities: this involves having a clear understanding of each team member's roles and responsibilities, coupled with consistent execution of tasks in alignment with their respective fields. 2) Adherence to Standard Operational Procedure (SOP): this entails complying with the cooperative's SOP in every aspect of operational activities, including financial transactions and data management. 3) Regulations for Maintaining Relationships with Financing Customers: this involves establishing rules and policies related to schedules to ensure a good and continuous relationship between the Sharia cooperative and financing customers. 4) Regulations for Checking and Guiding Financing Customers: this includes implementing structured procedures for conducting periodic checks on disbursed financing, as well as activities for guiding or providing | Preventing fraudulent behavior through moral and behavioral approaches. |

| Aspects | Explanation | Practical Activities | Effect |
|---|---|--|---|
| | | guidance related to financial management for financing customers. | |
| Building knowledge sharing culture | Creating an environment where members and management actively share knowledge, information, and experiences to enhance collective understanding and operational efficiency. | <ol style="list-style-type: none"> 1) Regular discussions at the primary branch cooperative level involve scheduling, member participation, and the implementation of changes or improvements based on the discussion outcomes. 2) Routine meetings of employees from the primary branch conducted by the primary headquarters focus on discussing branch-related issues and needs, as well as sharing information about new regulations and strategies. 3) Regular meetings of all managers from the primary headquarters held by the regional secondary cooperative involve exchanging information on effective new strategies and providing solutions to challenges faced by the primary headquarters, with the presence of a role model leader. | Preventing fraudulent behavior through a knowledge-based approach |
| Independent and structural training with Network Stuctural Support | Training designed independently by the primary headquarter cooperative and scheduled training organized by the cooperative network levels. | <ol style="list-style-type: none"> 1) Independent Training by Primary Headquarters: Each central office develops independent training programs, possibly tailored to local needs or specific office requirements. 2) Basic Training and Job-Specific Training by Regional Secondary Cooperatives: Organizing basic training for new human resources and thematic training for members based on their respective job fields. 3) National Seminar by National Secondary Cooperative: Participation in national seminars, enhancing managers' knowledge, and implementing practices acquired from the seminar to improve the operational performance of cooperatives at the national level. | Preventing fraudulent behavior through a knowledge-based approach |

Source: Primary Data Proceed (2024)

Other Factors Involved in IHCD

Other factors involved in Islamic Human Capital Development in preventing internal fraud comprise three key elements (See Table 2), namely strict scrutiny of financing transactions, adherence to SOP discipline, and zero tolerance for fraud.

Table 2: Other Factors and Practice in Sharia Cooperatives

| Aspects | Explanation and Practical Activities | Effect |
|---|---|--|
| Tight scrutiny of financing transactions | Involving stringent measures in the financing process, including thorough initial research on financing applications, active field supervision, and the implementation of surprise field audit systems. | This minimizes the risk of fraud through rigorous monitoring at every stage of the financing transaction. |
| Discipline towards Standard Operating Procedure (SOP) | Demonstrating commitment to Standard Operating Procedures (SOP) by managing each transaction according to established guidelines. Includes penalties for SOP violations. | Enhancing the accuracy and reliability of operational processes, providing strict sanctions to prevent SOP violations. |
| Zero tolerance for fraud | emphasizing a serious commitment to eradicate fraudulent activities by implementing severe consequences, such as immediate dismissal, legal reporting, and compensation claims for fraudulent actions. | It creates a work environment that does not tolerate fraud, providing strong preventive and corrective effects against unethical behavior. |

Source: Primary Data Proceed (2024)

The Role of IHCD in Internal Fraud Prevention

Based on the research findings, BTM has actively implemented Islamic human capital management, shaping policies to enhance faith, knowledge, and individual behavior. HR assumes the dual role of policy creator and user, focusing on nurturing spiritual awareness and knowledge within individuals. These initiatives prove crucial in fostering a heightened sense of morality and awareness among human resources concerning the religiously adverse consequences of fraudulent activities. The study reveals the following significant aspects of IHCD in fraud prevention:

- 1) Policies addressing the faith aspect concentrate on creating an Islamic environment, instigating a spiritual approach to bolster human resource awareness and morality. This initiative emphasizes the religious perspective, underscoring the importance of conducting business ethically and in accordance with Islamic principles. This heightened spiritual awareness contributes to improved HR behavior and serves as a deterrent against fraud.
- 2) Policies aimed at enhancing human resource knowledge involve independent and structured training, along with knowledge-sharing activities. Elevating the quality and knowledge of human resources equips them to detect and control fraudulent behavior at IMFI, benefiting all stakeholders, including administrators and managers.
- 3) Policies targeting the improvement of human resources' morals and behavior include embedding Islamic values in operational regulations, stringent supervision of financing procedures, firm adherence to SOPs, and zero tolerance for fraud. The consistent implementation of Islamic values in operational regulations, supervised by managers, extends to policies fostering closer relationships between HR and financing

customers. This approach, beyond its immediate purpose, facilitates the monitoring of micro-business development and establishes a closer rapport with financed customers. Consequently, HR can seek assistance from these customers in expanding financing prospects, contributing to a reduction in fraudulent behavior.

In conclusion, Sharia cooperatives extend their application of Sharia principles beyond operational activities to encompass human resource development practices. The holistic development of Islamic human capital proves instrumental in elevating HR's spiritual awareness, instilling enthusiasm, discipline, and a perception of work as worship. Practically employing policies for Islamic human capital development serves as a preventive measure, mitigating and redirecting fraudulent behavior. Ultimately, this approach leads to a decrease in the frequency of fraudulent activities and an enhancement of HR performance within Sharia Cooperatives implementing these strategies.

Comparison with Other Studies

This study's focus on internal fraud prevention within Sharia cooperatives through Islamic Human Capital Development (IHCD) is supported by existing literature emphasizing the importance of human resource quality and ethical standards. Research by Hendri et al. (2020) highlights the significant impact of HR quality on fraud prevention, aligning with our findings that enhancing spiritual, knowledge, and behavioral aspects of HR can mitigate fraud risks. Similarly, Peicheva (2012) underscores the vital role of HR departments in fraud prevention, particularly through increased training frequency. These studies provide a foundation for our conclusion that IHCD is an effective strategy for reducing internal fraud in Sharia cooperatives.

In comparison to studies on conventional microfinance institutions, our findings are consistent with the broader literature on fraud prevention and risk management. For instance, Churchill & Coster (2001) emphasize the importance of credit committees in reducing credit risk and maintaining operational integrity, a concept mirrored in our study's focus on HR's role in preventing fraud. The convergence of these findings with those from Sharia-based institutions underscores the universal applicability of robust HR practices and ethical standards in mitigating fraud risks.

Case studies from other Sharia-based institutions provide practical insights that reinforce our study's findings. Katsirin (2024), in his research on Islamic banking, found that factors such as weaknesses in the transaction system, weak security policies, and lack of employee training influence the occurrence of fraud. Therefore, preventive strategies that can be implemented include early detection systems, strict security policies, employee training, and cooperation with authorities. Katsirin (2024) also explains that employee training is another important strategy to increase awareness of fraud. With adequate training, employees can become more vigilant in recognizing signs of fraud, reporting suspicious activities, and taking appropriate preventive measures. Furthermore, a case study of Islamic banking in Malaysia by Azis et al. (2020) found that creating an environment with "certainty of being caught" based on Maqasid al-Shariah (objectives of Islamic rules based on the Quran and Sunnah) within the organization is more effective in preventing and combating fraud. The standard framework of Maqasid consists of safeguarding the five basic integral pillars, namely faith, life, intellect, lineage, and wealth.

Meanwhile, the case study described in Mukminin (2018) research on an Islamic bank in Dubai during the global crisis attempts to reconstruct and draw lessons from the major financial

crime that occurred at Dubai Islamic Bank (DIB) during the global crisis and juxtaposes it with fraudulent practices from a global perspective with the aim of acquiring broader knowledge on fraud, especially in shariah-based organizations. The most offensive misconducts found in this case are: i) fraudulent activities were concealed or kept secret; ii) there was a lack of knowledgeable people to oversee the risk and warning signs; and finally iii) the modus operandi employed was collaboration. According to Mukminin (2018), several social ills nowadays, including illegal deeds such as bribery, corruption, and fraud, occur because society generally prioritizes physical pleasure over promoting human development, such as spiritual needs (versus hedonism). Therefore, it is crucial that Islamic teachings be dedicated to all human activities so that they can instill ethical and good practices starting from home to the workplace and embed in the heart until they are put into actual practice. In this regard, Human Resources and Development is the department that should take on this constructive task to create a pool of high-quality workforce, as it is responsible for providing an end-to-end mechanism (screening, recruiting, maintaining, training, upgrading, firing) of the company’s human resources.

This aligns with our findings on the practical implementation of fraud prevention in Sharia cooperatives through IHCD such as structured and independent training as well as the application of an Islamic environment. By comparing our findings with these case examples, it becomes evident that IHCD can play a crucial role in fostering a culture of transparency and accountability within Sharia cooperatives, ultimately reducing fraud incidents.

Final Model Framework

This study succeeded in finding an IHCD model based on the implementation in the field and exploring the role of IHCD in helping to prevent fraud in Sharia cooperatives. These results can be seen in Figure 1.

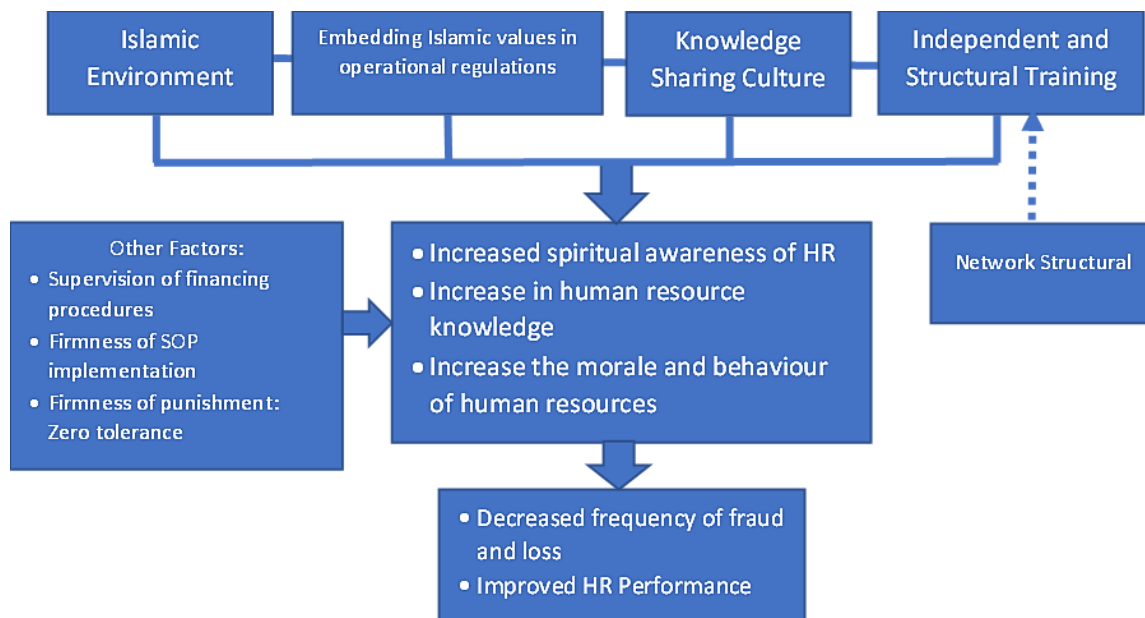


Figure 1: Internal Fraud Prevention Model based on Islamic Human Capital Development

Policies implemented in Islamic human capital development commence with the establishment of an Islamic environment, the incorporation of Islamic values into operational

regulations, knowledge-sharing, and comprehensive independent training. This approach significantly contributes to heightened spiritual awareness, knowledge enhancement, and the refinement of HR behavior and ethics. Furthermore, several additional factors contribute to the holistic development of human capital in Sharia cooperatives, encompassing structural network elements such as training initiatives and various policies like stringent supervision of financing procedures, unwavering adherence to SOPs, and resolute imposition of penalties. The synergistic integration of these policies is instrumental in preventing fraud, effectively reducing fraudulent activities within Sharia cooperatives, and concurrently enhancing HR performance. Ultimately, these endeavors in human capital development serve a dual purpose: mitigating the risks associated with fraudulent behavior and preserving the integrity of Sharia cooperatives in their mission to cater to the needs of the community.

CONCLUSION

This study successfully uncovered that Sharia cooperatives not only incorporate Sharia principles into their operational activities but also integrate them into their human resource development practices. The implemented policies aimed at enhancing human capital focus on the spiritual, knowledge, and behavioral aspects. Ultimately, this comprehensive development serves as a pivotal factor in mitigating fraud within Sharia cooperatives and ensuring the institution's resilience in delivering Sharia financial services to those in need. However, the efficacy of human capital development in fraud prevention relies on synergies with additional factors, including structural networks, supervision of financing procedures, steadfast adherence to SOPs, and stringent disciplinary measures.

This research contributes significantly to both the academic understanding and practical implementation of Sharia principles in human resource development, demonstrating its crucial role in fraud prevention and overall organizational resilience. It provides a framework for integrating spiritual and ethical dimensions into human capital strategies, which can serve as a model for similar institutions. Consequently, future research endeavors should delve into the patterns of internal control system policies, employing a qualitative approach to further enhance the understanding of their role in fortifying fraud prevention within Sharia cooperatives.

Practically, Sharia cooperatives are recommended to implement robust IHCD policies that include continuous training programs focused on Sharia compliance, regular audits to ensure adherence to Sharia principles, and the establishment of a clear ethical code of conduct. Additionally, fostering a culture of transparency and accountability through regular employee assessments and feedback mechanisms can significantly strengthen fraud prevention efforts.

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