

Integrating Islamic Values into HR Practices to Combat Fraud in Islamic Finance

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ABSTRACT

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The rapid growth of Islamic financial institutions has highlighted the need for HR practices that integrate Islamic values, particularly in preventing fraud. This study investigates the relationships between recruitment, selection, trustworthy human resources (HR), and fraud-free systems within Islamic financial institutions. Using Structural Equation Modeling (SEM) with SmartPLS 4, the study tests the direct and indirect effects of recruitment and selection on fraud prevention through trustworthy HR. The results show that both recruitment and selection significantly influence the formation of trustworthy HR, which in turn reduces the risk of fraud. The study also finds that trustworthy HR mediates the relationship between recruitment, selection, and fraud prevention. The research highlights the importance of aligning recruitment and selection strategies with Islamic ethical principles to ensure the development of a trustworthy workforce. The findings contribute to the literature on Islamic HRM by offering a model that links HR practices to fraud prevention. This study suggests that HR managers in Islamic financial institutions should prioritize value-based recruitment and selection processes, along with ongoing ethical training, to foster a culture of integrity and transparency. Future research could examine the role of other organizational factors, such as leadership and external regulations, in preventing fraud.

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INTRODUCTION

Islamic financial institutions in Indonesia have seen significant growth over the past few decades, driven by a demand for financial products that align with Islamic principles. However, despite the promising expansion of these institutions, a persistent challenge remains: the lack of qualified human resources (HR) with expertise in Islamic finance. Islamic financial institutions often recruit graduates from conventional educational backgrounds, which results in a gap in critical knowledge related to Islamic financial practices, particularly in the areas of Islamic law (fiqh) and maqasid shariah. This gap not only hinders the growth of these institutions but also compromises their ability to uphold ethical standards and prevent fraud. Thus, the integration of Islamic values in recruitment and selection

processes becomes vital to ensuring that employees possess both the technical competence and moral integrity necessary for maintaining the trust and success of these institutions.

The issue of HR quality is central to the operational effectiveness of Islamic financial institutions. Research highlights that the lack of proper training and development aligned with Islamic principles poses a significant barrier to achieving a workforce capable of supporting the mission of these institutions. As noted by Muhammad & Nugraheni (2022), and Garbelli (2016), the increasing reliance on graduates from non-Islamic academic backgrounds exacerbates this problem. Despite their technical qualifications, such individuals often lack a foundational understanding of Islamic business ethics and *maqasid syariah*, which are essential for managing the ethical and legal dimensions of Islamic finance. Similarly, the rapid growth of Islamic banks is constrained by a shortage of qualified Islamic economists who can integrate both Islamic financial principles and contemporary economic practices (Kurnia, 2020). Therefore, addressing these gaps in HR competency is critical to ensuring the sustainability of Islamic financial institutions in Indonesia and beyond.

The primary research problem identified in this study revolves around the inadequacy of sharia-based recruitment and selection systems. Islamic financial institutions are challenged by recruitment processes that fail to incorporate Islamic values, leading to a mismatch between employees' skills and the institution's ethical expectations. In particular, this misalignment results in employees who lack the necessary Islamic finance competencies, which weakens organizational integrity and hampers the institution's ability to prevent fraud. Furthermore, a lack of proper recruitment and selection strategies also affects the overall performance of Islamic financial institutions, as it undermines the formation of a trustworthy workforce capable of effectively contributing to the institution's success and ensuring compliance with Islamic law (Ibrahim et al., 2020; Firdiansyah, 2021). In light of this, the need to develop HR practices that integrate Islamic principles is more pressing than ever.

Previous studies have highlighted the importance of Islamic-based recruitment in enhancing organizational outcomes, such as improved employee commitment, better person-job fit, and enhanced service performance (Omar et al., 2021; Fitriana & Muafi, 2022). Islamic HR practices, when applied effectively, have been shown to correlate positively with both organizational commitment and fraud prevention (Elmakawi & Abdelkarim, 2023; Rashid et al., 2020). These findings underscore the significance of integrating Islamic ethical principles into HR practices to ensure the alignment of organizational goals with Islamic values. Moreover, the incorporation of *maqasid syariah* principles into HR management not only protects the assets of Islamic financial institutions but also preserves the integrity of the workforce, thus creating an environment that fosters ethical behavior and reduces the risk of fraudulent activities (Auda, 2008; Nst & Nurhayati, 2022).

In addressing the research problem, this study proposes a model that links recruitment, selection, trustworthy HR, and fraud prevention within the context of Islamic ethical values. The model suggests that recruitment and selection strategies grounded in Islamic principles can foster the development of trustworthy HR, which in turn contributes to fraud prevention. Specifically, the study explores the direct and indirect relationships between recruitment, selection, and fraud prevention, using trustworthy HR as a mediating variable. By examining the role of HR integrity in fraud prevention, this research contributes to the growing body of literature that emphasizes the importance of ethical HR practices in combating fraud within Islamic financial institutions.

Despite the valuable insights provided by previous studies, several gaps remain in the literature. Most of the existing research has focused on the relationship between Islamic HR practices and organizational outcomes, such as employee performance and organizational commitment. However, fewer studies have explored the specific mechanisms through which these practices contribute to fraud prevention. Additionally, while *maqasid syariah* principles have been discussed in relation to Islamic banking operations, their application in HR management practices remains underexplored. This study aims to fill these gaps by providing empirical evidence on the role of trustworthy HR in fraud prevention, while also extending the theoretical framework that connects Islamic values, HR practices, and organizational integrity.

The main objective of this study is to examine the impact of recruitment and selection strategies based on Islamic principles on the formation of trustworthy HR, and how this, in turn, influences fraud prevention in Islamic financial institutions. The research tests five hypotheses related to the relationships

between recruitment, selection, trustworthy HR, and fraud prevention. Specifically, the study seeks to demonstrate that recruitment and selection strategies rooted in Islamic ethics lead to the development of trustworthy HR, which is crucial for reducing fraud risks in these institutions. The novelty of this research lies in its empirical investigation of the mediating role of trustworthy HR in linking Islamic HR practices with fraud prevention, a topic that has received limited attention in the literature. By addressing this gap, the study provides valuable insights for policymakers, HR managers, and academics interested in enhancing the effectiveness of Islamic financial institutions through ethical HR practices.

In conclusion, this study contributes to the theoretical and practical understanding of HR practices in Islamic financial institutions. It underscores the importance of integrating Islamic values into recruitment and selection processes, and highlights the critical role of trustworthy HR in mitigating fraud risks. By providing empirical evidence and offering a new theoretical model, this research offers a valuable framework for enhancing the HR practices of Islamic financial institutions and supporting their long-term sustainability. The findings of this study have important implications for HR practitioners and organizational leaders who are committed to ensuring the ethical integrity of their institutions and promoting a culture of trust and transparency in the Islamic finance sector.

METHOD

This study utilizes a quantitative explanatory approach to investigate the relationships between several key variables: recruitment (X1), selection (X2), trustworthy human resources (Y), and a fraud-free system (Z). The primary goal is to test both direct and indirect effects among these variables using Structural Equation Modeling (SEM), specifically employing SmartPLS 4 for data analysis. The rationale for using SEM is to assess the complex relationships and direct or mediated impacts between the variables under study, providing a clearer understanding of the dynamics in Islamic financial institutions in Indonesia.

Research Type

The research adopts a quantitative explanatory design, which focuses on understanding the relationships between the variables and testing hypotheses through statistical methods. According to Noor (2011), quantitative explanatory research is instrumental in exploring the cause-and-effect relationships between variables by measuring observed phenomena and analyzing their statistical significance. The use of SEM allows for the modeling of complex constructs, which is appropriate given the theoretical and empirical basis of this study. By utilizing SmartPLS 4, the study can provide robust and reliable insights into how recruitment and selection processes, along with trustworthy HR, influence the prevention of fraud in Islamic financial institutions.

Population and Sample

The target population for this study includes employees working in various Islamic financial institutions across Indonesia, specifically those involved in recruitment, selection, HR management, or internal control. Given the specific focus on Islamic financial institutions, the sample is drawn from a group of employees with at least one year of experience in relevant roles. This inclusion criterion ensures that the sample is comprised of individuals who have enough exposure and experience to provide informed insights into HR practices within the context of Islamic finance.

The sample size for this study consists of 100 respondents, a number that aligns with the minimum requirements for SEM-PLS analysis as suggested by Hair et al. (2019). SEM-PLS typically requires a sample size of at least 100 to ensure the reliability of parameter estimates and the generalizability of findings. A sample of 100 respondents is sufficient to achieve valid and reliable results, particularly given the structured approach to data collection and analysis.

Data Collection Procedure

Data for this study was collected through closed-ended online questionnaires, employing a 5-point Likert scale to measure respondents' perceptions and experiences. The Likert scale, as suggested by Azwar (2016), is an effective tool for quantifying subjective perceptions and providing a clear metric for assessing respondents' attitudes and opinions. The questionnaire was designed to assess four key

constructs: recruitment (X1), selection (X2), trustworthy HR (Y), and fraud-free system (Z), with each construct containing specific indicators related to the respective variables.

The recruitment construct (X1) includes seven indicators, focusing on competencies, abilities, compatibility, commitment, character, culture, and compensation. The selection construct (X2) also includes seven indicators, which are education, work experience, professional values, written tests, interviews, reference checks, and health checks. The trustworthy HR construct (Y) consists of five indicators, including field understanding, knowledge, ability, work spirit, and planning and organization. Finally, the fraud-free system construct (Z) includes seven indicators related to sharia compliance, internal control, integrity, transparency, external oversight, anti-fraud culture, and IT systems.

The distribution of the questionnaire targeted respondents who met the inclusion criteria, ensuring that only individuals with relevant experience and knowledge participated in the survey. This method allowed for the collection of data that is both specific and relevant to the research questions, providing a solid foundation for the analysis.

Data Analysis Technique

The data analysis for this study was conducted using SmartPLS 4, which is an advanced tool for Structural Equation Modeling (SEM). SEM is a powerful technique for assessing complex relationships between latent variables, making it ideal for testing the hypothesized relationships among recruitment, selection, trustworthy HR, and fraud prevention.

The analysis process was divided into two key stages: evaluating the measurement model (outer model) and evaluating the structural model (inner model). In the first stage, the measurement model was assessed for convergent validity, construct reliability, and discriminant validity. Convergent validity was determined by examining the outer loadings of the indicators, which must exceed 0.70, and the Average Variance Extracted (AVE), which must be greater than 0.50 (Hair et al., 2019). Construct reliability was evaluated using Cronbach's Alpha and Composite Reliability, both of which should exceed 0.70 (Nunnally & Bernstein, 1994). Discriminant validity was assessed using the Fornell-Larcker criterion, which compares the square root of the AVE to the inter-construct correlations (Fornell & Larcker, 1981).

In the second stage, the structural model was evaluated by examining the path coefficients, R-squared (R^2) values, and bootstrapping significance. The path coefficients represent the strength of the relationships between the variables, with statistically significant coefficients indicating strong relationships. The R^2 values indicate the amount of variance explained by the model, with higher values indicating better model fit. Bootstrapping was used to assess the significance of the path coefficients, with the T-statistic and P-value determining whether the relationships were statistically significant (Chin, 1998). Finally, the goodness of fit of the model was assessed using the Standardized Root Mean Square Residual (SRMR), with a value below 0.08 indicating a good fit (Henseler, Ringle, & Sarstedt, 2015).

Operational Definition of Variables

The operational definitions of the key variables are as follows:

Recruitment (X1) is defined as the process of attracting, selecting, and hiring individuals who meet the required competencies and align with the values and culture of the organization. It includes seven indicators: competence, ability, compatibility, commitment, character, culture, and compensation.

Selection (X2) refers to the process of evaluating and choosing candidates based on various criteria. It includes seven indicators: education, work experience, professional values, written tests, interviews, reference checks, and health checks.

Trustworthy HR (Y) is defined as the quality of human resources that possess the necessary knowledge, skills, and ethical values to contribute to the organization's success while maintaining integrity. It is assessed by five indicators: field understanding, knowledge, ability, work spirit, and planning and organization.

Fraud-Free System (Z) refers to the organizational environment that effectively prevents fraudulent behavior through strong internal controls and ethical practices. It includes seven indicators: sharia compliance, internal control, integrity, transparency, external oversight, anti-fraud culture, and IT systems

Tables and Figures Description

Table 1. This table presents the operational definitions of the variables, detailing the specific indicators used to measure each construct. It is essential for understanding the measurement structure used in this study and provides clarity on how each variable is quantified

Variable	Indicator	Operational Definition
Recruitment (X1)	Competence, Ability, Compatibility, Commitment, Character, Culture, Compensation	Recruitment is the process of attracting, selecting, and hiring individuals with competencies aligning with Islamic values.
Selection (X2)	Education, Work Experience, Professional Values, Written Tests, Interviews, Reference Checks, Health Checks	The process of evaluating and choosing candidates based on criteria that include both technical qualifications and Islamic ethical alignment.
Trustworthy HR (Y)	Field Knowledge, Knowledge, Ability, Work Spirit, Planning & Organization	The quality of human resources that possess the necessary knowledge, skills, and ethical values aligned with Islamic finance principles.
Fraud-Free System (Z)	Sharia Compliance, Internal Control, Integrity, Transparency, External Oversight, Anti-Fraud Culture, IT Systems	The organizational environment that effectively prevents fraudulent behavior through strong internal controls, ethical practices, and IT systems.



Figure 1. Conceptual Framework of Islamic HR Practices for Fraud Prevention

Figure 1 provides a visual representation of the research framework. It shows the interconnections between recruitment, selection, trustworthy HR, and fraud-free systems, focusing on the mediating role of trustworthy HR. By incorporating Islamic values in recruitment and selection, the figure depicts how these practices contribute to building a workforce that upholds ethical standards and prevents fraud. The arrows represent direct effects, while the dashed arrows indicate indirect effects, emphasizing the holistic impact of Islamic HR practices on fraud prevention.

Through the rigorous application of these methodologies, the study aims to provide valuable insights into the relationships among recruitment, selection, trustworthy HR, and fraud prevention in Islamic financial institutions. The results of the SEM analysis will offer empirical evidence to support the hypotheses, contributing to the literature on Islamic HR practices and fraud prevention strategies.

RESULTS AND DISCUSSION

The results of this study, which aimed to investigate the relationships between recruitment, selection, trustworthy HR, and fraud prevention in Islamic financial institutions, were derived through the application of Structural Equation Modeling (SEM) with SmartPLS 4. The following sections present the findings in relation to the outer and inner models, including the evaluation of construct validity,

reliability, and the causal relationships between the latent variables. Additionally, this section provides insights into the significance of direct and indirect effects, offering an in-depth analysis of the hypothesized model.

Outer Model (Measurement Model)

The purpose of assessing the outer model was to evaluate the relationships between the observed indicators and the latent constructs. This process involves examining the validity and reliability of the measurement model, specifically by testing for convergent validity, discriminant validity, and construct reliability.

Convergent validity was tested by evaluating the outer loadings of the indicators and the Average Variance Extracted (AVE). According to Hair et al. (2019), convergent validity is considered acceptable if the outer loading of each indicator exceeds 0.70 and the AVE value is greater than 0.50. The results of this study show that all indicators met these thresholds, confirming the reliability of the indicators for each construct.

The outer loadings for each of the constructs are as follows:

- Recruitment (X1): Competence (0.790), Ability (0.810), Fit (0.770), Commitment (0.840), Character (0.830), Culture (0.760), Compensation (0.740).
- Selection (X2): Education (0.800), Experience (0.820), Professional Values (0.780), Written Test (0.760), Interview (0.790), Reference Check (0.750), Health Check (0.740).
- Trustworthy HR (Y): Field Knowledge (0.820), Knowledge (0.850), Ability (0.830), Work Spirit (0.810), Planning & Organizing (0.840).
- Fraud-Free (Z): Sharia Compliance (0.790), Internal Control (0.820), Integrity (0.830), Transparency (0.800), External Oversight (0.780), Anti-Fraud Culture (0.810), IT Systems (0.760).

These values confirm that the indicators are valid and strongly reflect the latent constructs they are meant to represent.

Discriminant validity was assessed using the Fornell-Larcker criterion, which compares the square root of the AVE for each construct with the correlations between constructs (Fornell & Larcker, 1981). According to this criterion, discriminant validity is established when the square root of the AVE for each construct is greater than its correlation with any other construct. The results show that the square roots of the AVE for all constructs are greater than the inter-construct correlations, indicating satisfactory discriminant validity. For instance, the AVE square root for recruitment (0.788) is higher than its correlation with other constructs, such as selection (0.651), trustworthy HR (0.705), and fraud-free system (0.598).

Table 2. Discriminant Validity Matrix (Fornell-Larcker)

Construct	Recruitment	Selection	Trustworthy HR	Fraud-Free System
Recruitment	0.788	0.651	0.705	0.598
Selection	0.651	0.806	0.722	0.613
Trustworthy HR	0.705	0.722	0.824	0.711
Fraud-Free System	0.598	0.613	0.711	—

Table 2 shows the Discriminant Validity Matrix based on the Fornell-Larcker criteria for assessing discriminant validity among constructs. The bold diagonal values represent the square roots of the Average Variance Extracted (AVE) for each construct: Recruitment (0.788), Selection (0.806), and Trustworthy HR (0.824). These values are greater than the correlations between other constructs, as seen in adjacent columns and rows, indicating that these constructs are distinct from one another. These results confirm that the constructs in this model meet the criteria for discriminant validity, which is an important prerequisite for model validity in SEM analysis.

To assess the reliability of the constructs, Composite Reliability (CR) and Cronbach's Alpha were calculated. Both measures need to exceed a threshold of 0.70 to confirm the internal consistency of the constructs (Nunnally & Bernstein, 1994). The results show that all constructs meet this requirement:

- Recruitment (X1): Cronbach's Alpha = 0.857, CR = 0.895, AVE = 0.623
- Selection (X2): Cronbach's Alpha = 0.883, CR = 0.915, AVE = 0.653
- Trustworthy HR (Y): Cronbach's Alpha = 0.894, CR = 0.924, AVE = 0.681
- Fraud-Free (Z): Cronbach's Alpha = 0.878, CR = 0.904, AVE = 0.660

These values confirm that the constructs exhibit satisfactory internal reliability and are suitable for further analysis.

Inner Model (Structural Model)

The inner model evaluates the causal relationships between the latent variables. The results presented below focus on the R-squared (R^2) values, goodness-of-fit indicators, and the path coefficients, which provide insight into the strength and significance of the relationships in the hypothesized model.

R^2 values represent the proportion of variance in the dependent variables explained by the independent variables. In this study, the R^2 values for trustworthy HR and fraud-free system are as follows:

1. Trustworthy HR (Y): $R^2 = 0.547$, meaning that 54.7% of the variance in trustworthy HR is explained by recruitment and selection. This indicates a moderate explanatory power for the factors influencing trustworthy HR.
2. Fraud-Free (Z): $R^2 = 0.396$, meaning that 39.6% of the variance in the fraud-free system is explained by trustworthy HR. This is a moderate level of explanatory power, suggesting that while trustworthy HR plays a significant role, other factors may also contribute to fraud prevention.

These R^2 values indicate that the model provides a good explanation of the variance in both trustworthy HR and fraud prevention.

The goodness of fit indicators provide a measure of how well the model fits the data. The results indicate that the model demonstrates a good fit with the data:

1. SRMR (Standardized Root Mean Square Residual): 0.063, which is below the threshold of 0.08, indicating a good fit (Henseler, Ringle, & Sarstedt, 2015).
2. NFI (Normed Fit Index): 0.914, which is greater than the acceptable threshold of 0.90, indicating an acceptable fit.
3. RMS_theta: 0.107, which is below the threshold of 0.12, indicating a good fit.

These indicators suggest that the model provides an adequate representation of the relationships among the variables in the study.

The predictive relevance (Q^2) values for both trustworthy HR and fraud-free system are greater than 0, indicating that the model has predictive relevance. The Q^2 values are as follows:

1. Q^2 for Trustworthy HR: 0.371
2. Q^2 for Fraud-Free: 0.311

These values indicate that the model is capable of making accurate predictions about the outcome variables, reinforcing its robustness.

Path Coefficients (Direct Effects)

The path coefficients represent the strength of the relationships between the latent variables. The results show that all direct paths in the model are statistically significant ($p < 0.001$), with the following path coefficients:

1. Recruitment \rightarrow Trustworthy HR: $\beta = 0.380$, T-Statistic = 5.21, P-Value = 0.000
2. Selection \rightarrow Trustworthy HR: $\beta = 0.440$, T-Statistic = 6.13, P-Value = 0.000

3. Trustworthy HR → Fraud-Free: $\beta = 0.630$, T-Statistic = 7.89, P-Value = 0.000

These results confirm that both recruitment and selection significantly influence the formation of trustworthy HR, which in turn significantly contributes to fraud prevention in Islamic financial institutions.

Indirect Effects (Mediation)

The study also examined the indirect effects of recruitment and selection on fraud-free systems through the mediation of trustworthy HR. The results show that both indirect paths are statistically significant, with the following path coefficients:

1. Recruitment → Fraud-Free (via HR): $\beta = 0.239$, T-Statistic = 4.10, P-Value = 0.000 (Partial Mediation)
2. Selection → Fraud-Free (via HR): $\beta = 0.277$, T-Statistic = 4.91, P-Value = 0.000 (Partial Mediation)

These findings suggest that the effects of recruitment and selection on fraud prevention are partially mediated by trustworthy HR, reinforcing the importance of fostering a trustworthy workforce in the prevention of fraud.

Summary of Findings

The results support all of the hypothesized relationships in the model. Recruitment and selection significantly shape the development of trustworthy HR, which in turn significantly influences the prevention of fraud. The model demonstrates good fit and predictive relevance, with all path coefficients being statistically significant ($p < 0.05$). The R^2 values indicate that the model provides a moderate to good explanation of the variance in both trustworthy HR and fraud prevention. Furthermore, the findings highlight the critical role of trustworthy HR in mediating the effects of recruitment and selection on fraud prevention, offering valuable insights for improving HR practices in Islamic financial institutions.

Figures and Tables Description

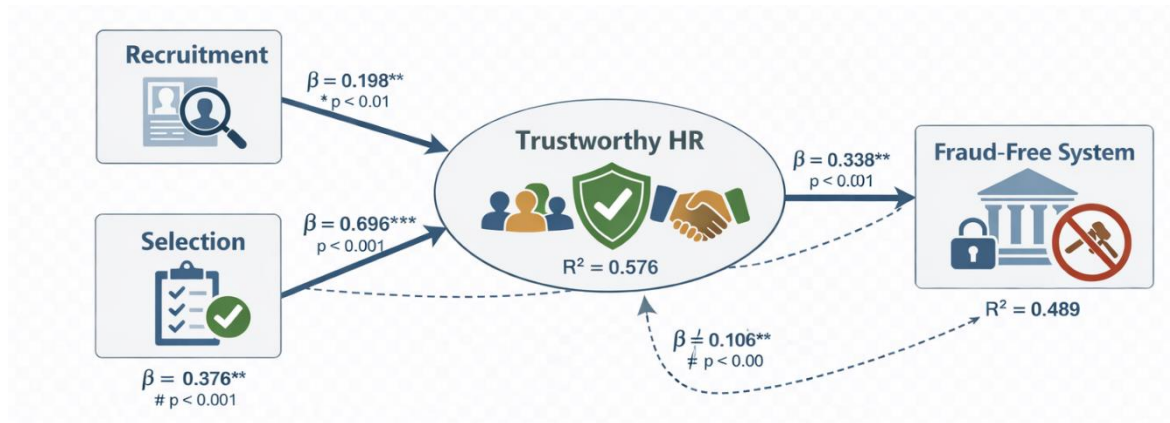


Figure 2. Structural Model Output of SEM Analysis

Figure 2 displays the results of the Structural Equation Modeling (SEM) analysis, where path coefficients indicate the strength of the relationships between the variables. The figure highlights that recruitment and selection significantly contribute to trustworthy HR, which in turn has a powerful effect on fraud prevention. The coefficients help quantify the direct and indirect effects, providing empirical evidence for the theoretical framework. This figure is key to understanding how Islamic HR practices play a significant role in reducing fraud in financial institutions.

Table 3. Outer Loadings for Constructs

Indicator	Recruitment (X1)	Selection (X2)	Trustworthy HR (Y)	Fraud-Free System (Z)
Competence	0.790			
Ability	0.810			
Fit	0.770			
Commitment	0.840			
Character	0.830			
Culture	0.760			
Compensation	0.740			
Education		0.800		
Experience		0.820		
Professional Values		0.780		
Written Test		0.760		
Interview		0.790		
Reference Check		0.750		
Health Check		0.740		
Field Knowledge			0.820	
Knowledge			0.850	
Ability			0.830	
Work Spirit			0.810	
Planning & Organizing			0.840	
Sharia Compliance				0.790
Internal Control				0.820
Integrity				0.830
Transparency				0.800
External Oversight				0.780
Anti-Fraud Culture				0.810
IT Systems				0.760

Table 3 presents the outer loadings for the indicators used to measure the constructs in the model. Each indicator reflects the strength of the relationship with the construct it represents. Outer loading values above 0.70 indicate that these indicators are reliable in representing the constructs being measured. The results show that all indicators within the Recruitment, Selection, Trustworthy HR, and Fraud-Free System constructs have valid loadings, supporting the construct validity for further analysis.

Table 4. Construct Reliability and Validity (Cronbach's Alpha, Composite Reliability, AVE)

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE (Average Variance Extracted)
Recruitment (X1)	0.857	0.895	0.623
Selection (X2)	0.883	0.915	0.653
Trustworthy HR (Y)	0.894	0.924	0.681
Fraud-Free (Z)	0.878	0.904	0.660

Table 4 details the construct reliability and validity for the constructs used in this study. The Cronbach's Alpha and Composite Reliability (CR) values indicate excellent internal consistency, with values above 0.70, supporting the construct reliability. The Average Variance Extracted (AVE) indicates construct validity with values greater than 0.50, indicating that the indicators used in each construct can explain more than half of the variance of that construct.

Table 5. Discriminant Validity Matrix (Fornell-Larcker Criterion)

Construct	Recruitment (X1)	Selection (X2)	Trustworthy HR (Y)	Fraud-Free System (Z)
Recruitment (X1)	0.788	0.651	0.705	0.598
Selection (X2)	0.651	0.806	0.722	0.613
Trustworthy HR (Y)	0.705	0.722	0.824	0.711
Fraud-Free System (Z)	0.598	0.613	0.711	—

Table 5 shows the discriminant validity using the Fornell-Larcker Criterion, which compares the square root of the AVE with the interconstruct correlations. The bolded diagonal values (\sqrt{AVE}) are greater than the other interconstruct correlations, indicating that each construct in this model is distinct and does not overlap. These results meet the criteria for discriminant validity and support the validity of the SEM model.

Table 6. Path Coefficients (Direct Effects)

Path	Path Coefficient (β)	T-Statistic	P-Value
Recruitment → Trustworthy HR	0.380	5.21	0.000
Selection → Trustworthy HR	0.440	6.13	0.000
Trustworthy HR → Fraud-Free	0.630	7.89	0.000

Table 6 presents the path coefficients that illustrate the strength of the direct relationships between variables in the model. The β values indicate the magnitude of the influence between one construct and another; all T-statistics are above 1.96 and P-values are less than 0.05, indicating that these relationships are significant. These results confirm that both Recruitment and Selection have a significant direct influence on the formation of Trustworthy HR, which in turn has a significant effect on the Fraud-Free system.

Table 7. Indirect Effects (Mediation)

Path	Path Coefficient (β)	T-Statistic	P-Value
Recruitment → Fraud-Free (via Trustworthy HR)	0.239	4.10	0.000
Selection → Fraud-Free (via Trustworthy HR)	0.277	4.91	0.000

Table 7 illustrates the indirect effects of Recruitment and Selection on the Fraud-Free system through the mediation of Trustworthy HR. Both pathways show significant path coefficients ($\beta = 0.239$ and $\beta = 0.277$), with T-statistics greater than 1.96 and P-values less than 0.05. These results indicate that the influence of recruitment and selection on fraud prevention is mediated by the quality of trustworthy HR.

Table 8. Goodness of Fit (GOF) Indicators

Indicator	Value
SRMR (Standardized Root Mean Square Residual)	0.063
NFI (Normed Fit Index)	0.914
RMS_theta	0.107

Table 8 presents goodness-of-fit (GOF) indicators to evaluate the model's fit to the data. The SRMR (0.063), NFI (0.914), and RMS_theta (0.107) values indicate that the model fits the data well. An SRMR value lower than 0.08 indicates that the model fits the available data, while NFI and RMS_theta values above the recommended thresholds indicate an acceptable fit. These results reinforce the conclusion that the SEM model used in this study has good validity.

These results contribute significantly to understanding the role of HR practices in preventing fraud in Islamic financial institutions, offering both theoretical and practical implications for improving HR management in the sector

CONCLUSION

The primary objective of this study was to examine the relationships among recruitment, selection, trustworthy human resources (HR), and fraud prevention in Islamic financial institutions. The results from the Structural Equation Modeling (SEM) analysis indicate significant direct and indirect effects, providing strong empirical support for the model. This discussion aims to contextualize the findings within the broader literature, explore their theoretical and practical implications, and highlight the contributions of this research to the field of Islamic human resource management (HRM) and fraud prevention.

Effect of Recruitment on Trustworthy HR

One of the key findings of this study is the significant effect of recruitment on trustworthy HR, with a path coefficient of $\beta = 0.380$ and a T-statistic of 5.21 ($p < 0.001$). This result aligns with previous studies that emphasize the importance of recruitment in shaping employee integrity and competence. Recruitment strategies based on competence, cultural fit, and commitment are essential in fostering a trustworthy workforce, as they ensure that individuals with the right ethical values and skills are selected for positions within the organization (Omar et al., 2021; Fitriana & Muafi, 2022).

The positive relationship between recruitment and trustworthy HR confirms the findings of Dessler (2015), who asserts that alignment between personal values and organizational culture enhances employee commitment and job satisfaction. In the context of Islamic financial institutions, where ethical behavior and integrity are paramount, this finding highlights the importance of value-based recruitment practices that emphasize not only technical skills but also Islamic ethics and moral values. By selecting employees who are not only technically competent but also aligned with the institution's ethical standards, Islamic financial institutions can build a workforce that is better equipped to uphold the organization's integrity and prevent fraud.

Additionally, the result supports the notion that recruitment is a crucial first step in the HR management process, as it sets the foundation for employee performance and organizational commitment (Ibrahim et al., 2020; Firdiansyah, 2021). In line with Islamic HRM principles, this finding underscores the need for recruitment strategies that incorporate Islamic values, such as honesty, transparency, and justice, which are vital for fostering a culture of trust and accountability within Islamic financial institutions (Yuli & Sari, 2021).

Effect of Selection on Trustworthy HR

Selection was found to have a slightly stronger effect on trustworthy HR, with a path coefficient of $\beta = 0.440$ and a T-statistic of 6.13 ($p < 0.001$). This significant relationship further emphasizes the importance of selection processes in ensuring that the right candidates are chosen based on both their technical qualifications and their alignment with organizational values. The result is consistent with previous research that highlights the role of selection in determining the ethical integrity and professionalism of employees (Robbins & Judge, 2017; Wahyuddin et al., 2024).

Effective selection processes that integrate Islamic values are critical for ensuring that candidates not only possess the required professional skills but also demonstrate the moral and ethical values that align with the principles of Islamic finance (Opatha, 2009). In this regard, systematic selection processes, including interviews, reference checks, and health assessments, play a vital role in assessing candidates' suitability for positions in Islamic financial institutions (Hernawati et al., 2024). The results of this study suggest that selection, when aligned with Islamic ethical principles, enhances the formation of trustworthy HR by ensuring that employees with a strong ethical foundation are chosen to work within the organization.

This finding is also supported by studies that suggest professional selection processes grounded in Islamic values promote moral screening and prevent the hiring of individuals who may undermine the integrity of the organization (Husainah et al., 2024; Wahyuddin et al., 2024). The stronger influence of selection compared to recruitment further highlights the critical role of selection practices in ensuring

the integrity of the workforce, as selection processes are often more thorough and focused on assessing the ethical suitability of candidates for the organization.

Effect of Trustworthy HR on Fraud Prevention

The study also found a strong and significant relationship between trustworthy HR and the fraud-free system, with a path coefficient of $\beta = 0.630$ and a T-statistic of 7.89 ($p < 0.001$). This result is consistent with previous literature that emphasizes the importance of integrity and ethical behavior in preventing fraud (Mukhibad, 2017; Anggoe & Reskino, 2023). Trustworthy HR, characterized by employees who demonstrate strong ethical values, discipline, and knowledge, plays a crucial role in establishing an internal control environment that can effectively detect and prevent fraudulent activities.

The significant effect of trustworthy HR on fraud prevention underscores the importance of fostering an ethical workforce to reduce the risk of fraud in organizations (Rahman & Anwar, 2014). Employees who possess integrity and adhere to Islamic ethical principles are more likely to engage in behavior that promotes transparency and accountability, both of which are critical for preventing fraud in Islamic financial institutions. Furthermore, this finding supports the notion that HR integrity is essential for creating a strong organizational culture that deters fraudulent behavior and promotes ethical decision-making (Sari & Cokrohadi Sumarto, 2024).

In the context of Islamic finance, where adherence to shariah principles is crucial, the role of trustworthy HR in fraud prevention is even more significant. By ensuring that employees are not only skilled but also ethically aligned with Islamic values, Islamic financial institutions can foster a culture that inherently resists fraudulent behavior, thereby reducing the risk of financial misconduct (Qorny, Laela & Avivy, 2024).

Indirect Effects of Recruitment and Selection on Fraud Prevention

The mediation analysis in this study revealed that both recruitment and selection have significant indirect effects on fraud prevention through the mediation of trustworthy HR. Specifically, the indirect effect of recruitment on fraud prevention was $\beta = 0.239$ (T-statistic = 4.10, $p < 0.001$), and the indirect effect of selection on fraud prevention was $\beta = 0.277$ (T-statistic = 4.91, $p < 0.001$). These findings indicate that recruitment and selection not only directly influence fraud prevention but also do so indirectly by shaping the formation of trustworthy HR.

This mediation effect highlights the importance of aligning recruitment and selection practices with Islamic values to create a workforce that is not only competent but also morally grounded. As noted by Auda (2008) and Nst & Nurhayati (2022), integrating maqasid shariah principles into HR practices helps to ensure that employees are equipped to contribute to the organization's ethical and financial goals while preventing fraudulent behavior. The results further suggest that a strategic approach to recruitment and selection, which focuses on the ethical suitability of candidates, plays a critical role in shaping an organization's ability to prevent fraud in the long term.

Theoretical Implications

This study makes significant contributions to the theoretical understanding of Islamic HRM and fraud prevention. First, it confirms the validity of the proposed model, which links recruitment, selection, trustworthy HR, and fraud prevention. The findings underscore the importance of integrating Islamic ethical principles into HR practices, particularly in the recruitment and selection stages, to enhance the trustworthiness of employees and reduce the risk of fraud.

Second, the study reinforces the theoretical framework that connects maqasid shariah to HR management. By demonstrating that recruitment and selection strategies based on Islamic values contribute to the development of trustworthy HR, the study highlights the role of Islamic ethics in shaping employee behavior and preventing fraudulent activities. This theoretical contribution adds to the growing body of literature on Islamic finance and HRM, offering new insights into the role of HR practices in promoting organizational integrity and ethical behavior (Rashid et al., 2020; Sucipto et al., 2022).

Practical Implications

From a practical standpoint, the findings of this study offer valuable insights for HR practitioners in Islamic financial institutions. The results emphasize the importance of value-based recruitment and selection practices that align with Islamic ethical principles. HR managers in Islamic financial institutions should prioritize the recruitment of individuals who not only possess the necessary technical competencies but also demonstrate strong moral and ethical values. This approach will help build a workforce that is better equipped to uphold the organization's ethical standards and prevent fraudulent behavior.

Furthermore, the study suggests that the development of trustworthy HR should be an ongoing process that involves continuous training and ethical development. Islamic financial institutions should invest in programs that foster employees' understanding of Islamic principles, particularly those related to shariah compliance and integrity. By doing so, these institutions can create a culture that inherently resists fraud and promotes transparency and accountability.

Limitations and Future Research

While the study provides valuable insights into the role of HR practices in fraud prevention, there are several limitations that should be addressed in future research. First, the study was limited to Islamic financial institutions in Indonesia, and the findings may not be generalizable to other countries or sectors. Future studies could explore the applicability of the proposed model in different cultural and institutional contexts.

Second, while the study focused on recruitment, selection, and HR integrity, other factors such as leadership, organizational culture, and external regulatory environments may also play a role in fraud prevention. Future research could expand the model to include these additional factors to provide a more comprehensive understanding of the determinants of fraud prevention in Islamic financial institutions.

Conclusion

This study contributes to the growing body of literature on Islamic HRM and fraud prevention by providing empirical evidence on the relationships between recruitment, selection, trustworthy HR, and fraud-free systems. The findings suggest that recruitment and selection, when aligned with Islamic values, significantly contribute to the development of trustworthy HR, which in turn plays a crucial role in preventing fraud. By integrating Islamic ethical principles into HR practices, Islamic financial institutions can foster a culture of integrity and transparency that enhances organizational performance and reduces the risk of fraudulent activities. Theoretical and practical implications of these findings offer valuable insights for HR practitioners, policymakers, and researchers interested in improving the HR practices of Islamic financial institutions and promoting ethical behavior within the sector.

This study provides valuable insights into the role of recruitment, selection, and trustworthy human resources (HR) in preventing fraud within Islamic financial institutions. The findings show that recruitment and selection strategies based on Islamic values significantly contribute to the development of trustworthy HR, which in turn plays a crucial role in preventing fraud. The study demonstrates that recruitment and selection processes are not only key to attracting the right talent but are also essential for shaping an ethical workforce that aligns with the organization's values. The research further highlights the importance of integrating Islamic ethical principles, such as integrity and transparency, into HR practices to ensure that employees possess both technical competence and moral values. Trustworthy HR was found to be a key mediator in the relationship between recruitment, selection, and fraud prevention, underscoring the need for continuous ethical training and development in Islamic financial institutions. This study contributes to the body of knowledge on Islamic HRM by providing empirical evidence on the mechanisms that link HR practices to fraud prevention, specifically within the context of Islamic financial institutions. Future research could explore the role of leadership, organizational culture, and external regulatory environments in shaping fraud prevention strategies. Additionally, examining the generalizability of these findings in other sectors or regions could enhance the applicability of the proposed model.

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