International Journal of Scientific and Management Research
Volume 8 Issue 4 (April) 2025
ISSN: 2581-6888
Page: 46-68

Islamic Corporate Governance, Organizational Culture and Fraud with Code of Ethics Moderation Empirical Evidence from Islamic Banking in Indonesia

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DOI - http://doi.org/10.37502/IJSMR.2025.8403

Abstract

The goal of this research is to demonstrate how organizational culture and Islamic corporate governance (ICG) impact fraud in Indonesian sharia banking. Four forms comprise the organizational culture: Group, Market, Adocracy, and Structure. Additionally, the study examines how the Code of Ethics can moderate these effects. The research was conducted using quantitative methods. Using a panel data regression model, data from all Islamic banks in Indonesia from 2015 to 2020 were examined. There were 14 institutions in all. Biplot analysis is used to map the organizational culture of Islamic banking using Principal Component Analysis (PCA). The results of this study indicate that hierarchical, market, and clan cultures, as well as Islamic corporate governance (ICG), directly affect fraudulent actions. Conversely, Adhocracy Culture was found to have no direct impact on fraud. for Islamic Banks, an in-depth analysis is needed regarding the cogency of Islamic Corporate Governance in latest structure associated with existing fraud incidents. In addition, Islamic banks as business entities can refer to organizational culture models, which can prevent fraud. As for the implications for Regulators, the research results state that the Code of Ethics is proven to be able to strengthen efforts to reduce fraud, but currently there is no reference to regulations from regulators that regulate the minimum standard of Code of Ethics in Islamic Banks. Regulators can formulate regulations mandating the adoption of a Code of Ethics in Islamic Banking.

Keywords: Organizational Culture, Islamic Corporate Governance, Islamic Supervisory Board, Islamic Banking.

1. Introduction

Due to the increasing complexity of corporate operations and the rapid development of the banking sector, the banking industry has seen a rise in operational hazards, including fraud. Because of the difficulties in putting Sharia law into practice (Khan & Zahid, 2020) and the industry's ongoing growth (Muhammad et al., 2019), Islamic banking in particular is vulnerable to this kind of risk. It is difficult for any bank to function without experiencing fraud since it is an inherent risk in the banking industry (Bhasin, 2015). Even Sharia-based banks and institutions are not immune to fraud (Rahmawaty & Rahmayani, 2017).

In the banking industry profile periodic report (Financial Services Authority-b, 2021), the Financial Services Authority (OJK) released Deviations from Banking Regulations (PKP) as shown in the table below.

Table 1. Data on Deviations from Banking Regulations for the 2016-2021 period

Activity	2016		2017		2018		2019		2020		2021	
	Bank Office	PKP	Bank Office	PKP	Bank Office	PKP	Bank Office	PKP	Bank Office	PKP	Bank Office	PKP
Accepted PKP	36	81	4	7	45	110	25	63	28	55	23	39
PKP is in the process of analysis	-	-	-	-	10	23	13	39	13	26	11	21
Investigated PKP	14	39	3	4	27	65	24	62	17	28	8	14
Delegation to Satker OJK investigation	17	38	7	9	19	30	24	50	8	10	12	22

Note: Reprocessed Banking Industry Profile Report

In the 2016 to 2021 Banking Industry Profile Report, OJK provides an overview of the perpetrators allegedly involved in banking crimes (TIPIBANK). TIPIBANK actors are known to come from the employee group up to the top management level, and some are even shareholders.

Table 2. Fraud perpetrators suspected of being TIPIBANK

TIPIBANK performers	2016	2017	2018	2019
Shareholders	1	-	1	-
Commissioner	3	-	-	-
Directors	20	10	5	6
Executive Officer	16	5	7	4
Bank employees	3	-	-	2

Note: Reprocessed Banking Industry Profile Report (Otoritas Jasa Keuangan-b, 2021)

Applying governance concepts based on Islamic values to assess the societal effect of sharia entities particularly banks while abstaining from fraudulent activity is known as Islamic Corporate Governance, or ICG (Rahmawaty & Rahmayani, 2017).

Islamic Corporate Governance (ICG) is a system of supervision and control that ensures Islamic banks operate in accordance with Islamic principles and protect the interests of stakeholders (Rahmawaty & Rahmayani, 2017). ICG emphasizes the balance between business efficiency, social responsibility, and compliance with sharia values (Khan & Zahid, 2020). The main components of ICG include the Sharia Supervisory Board (SSB) which ensures sharia compliance, transparency and accountability in financial reporting, the application of the principle of fairness in business, and a profit-and-loss sharing mechanism that distinguishes Islamic banks from interest-based financial systems (Bank Indonesia, 2009; ElKelish & Hassan, 2014).

The main difference between ICG and conventional governance lies in the objectives and mechanisms of supervision. Conventional governance focuses on shareholder interests and business efficiency, while ICG emphasizes social welfare based on maqashid sharia (Ghozali, 2020). In ICG, DPS acts as an additional supervisor in addition to the board of directors and commissioners, while in conventional governance, supervision is carried out by commissioners and external auditors only (Najib & Rini, 2016). In addition, ICG prohibits the practices of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), which are still used in the conventional financial system (Rahmawaty & Rahmayani, 2017).

With these characteristics, ICG not only functions as an internal supervisory system, but also as an instrument to achieve economic sustainability and social stability in Islamic banking. Stricter regulations and implementation of a strong code of ethics are needed to ensure the effectiveness of ICG in preventing fraud and increasing the credibility of Islamic banks in the eyes of the public (Mukhibad & Nurkhin, 2019; Muhammad et al., 2019).

Khan and Zahid (2020) explain that Directors of Islamic banks face a more complex task due to the multi-layered governance system, which involves adhering to both general governance principles and the governance requirements specific to Islamic banking. Good governance and leadership, as emphasized by Kusumawati's Research (Kusumawati, 2020) can help prevent fraudulent activities and enable the company to recover from an economic crisis.

Organizational culture provides a platform for utilizing institutional power, thereby influencing members towards adopting principal-agent relationships (Davis et al., 2017). Effective governance structures can help alleviate agency problems that may arise from such relationships (Ghozali, 2020). Jensen and Meckling (1976) explain that principals attempt to address the issue of conflicting interests with agents through monitoring and bonding mechanisms. However, supervisory and restrictive measures imposed by principals can result in additional costs associated with such oversight.

The culture of organization role when determining corporate behaviour and success is significant (Bhandari et al., 2022). A strong organizational culture can positively impact a company's ability to prevent fraud by fostering high integrity work practices (Yelvionita et al., 2020). Such a culture can also promote consistent behaviour and enhance employee performance, leading to improved organizational effectiveness. However, a negative organizational culture can hinder performance and negatively affect achievement of organizational goals, as it guides employee behaviour (Faisal & Sudibyo, 2020). Such a culture can also promote consistent behaviour and enhance employee performance, leading to improved organizational effectiveness. However, a negative organizational culture can hinder performance and negatively affect achievement of organizational goals, as it guides employee behaviour (Gupta & Cannon, 2022).

In the banking industry, ethics and professionalism are very important for bankers as well as the general public, especially banks (Carse et al., 2011). This is to protect the rights and interests of its customers as well as maintain financial market stability and confidence and economic development. The broad impact of corporate culture influences everything from ethical decisions, economic performance, management control systems and accounting practices (Bhandari et al., 2022). In order to increase professionalism, bank employees must be professional and obey the ethics code (Hatta & Yulianto, 2021). Good corporate governance has been shown to increase oversight to reduce the potential for fraud. According to Jensen and Meckling, one of the mechanisms that can be used to reduce agency problems is monitoring. Monitoring can be done in several ways, namely the formation of the board of commissioners, the corporate control market, majority shareholders, concentrated shareholders and the existence of a manager's market.

In addition to examining the influence of organizational culture on fraud, which is mitigated by the publication of the Code of Ethics in Islamic Banking, this study seeks to assess the efficacy of ICG through its structure. To make sure Islamic banks operate in line with their owners' interests, the ICG structure which incorporates the Sharia Supervisory Board based on (Bank Indonesia, 2009) is essential. In this study, we evaluate the efficacy of ICG by looking at the size of the Sharia Supervisory Board, the frequency of Supervisory Board meetings, and the educational background and background of its members. These factors are then utilized to determine the efficacy value of ICG (Mukhibad & Nurkhin, 2019).

Clan, Adhocracy, Market, and Hierarchy Cultures are the four organizational culture types that will be examined in this research. Using the Competing Values Framework (2006) as a basis, Cameron and Quinn (2011) developed the Organizational Culture Assessment Instrument (OCAI), which was used to identify these cultures. ElKelish and Hassan (2014) employed a numerical stand-in. Elkish and Hasan (2014) established a number of proxy metrics for evaluating various aspects of company culture, including variables like market share, employee training expenditures, and R&D spending. It is crucial to remember that the selection of proxy variables is limited by the information that has been provided.

Although many studies have discussed Islamic Corporate Governance (ICG) in preventing fraud, most of them only focus on the effectiveness of the Sharia Supervisory Board (SSB) without considering the role of organizational culture in supporting sharia governance (Mukhibad & Nurkhin, 2019; Najib & Rini, 2016). In addition, there are still few studies that explore how the Code of Ethics can strengthen the relationship between ICG and fraud prevention, especially in the context of Islamic banks in Indonesia (Rahmawaty & Rahmayani, 2017).

This study fills this gap by analysing the impact of organizational culture types (Clan, Adhocracy, Market, and Hierarchy) on fraud and how the Code of Ethics strengthens the influence of ICG in preventing fraud. Unlike previous studies that only focus on the structural aspects of governance (ElKelish & Hassan, 2014; Khan & Zahid, 2020), this study combines the governance and organizational culture approaches using panel data regression. The results of this study are expected to provide insight for academics, regulators, and Islamic banks in increasing the transparency and effectiveness of Islamic corporate governance (Muhammad et al., 2019; Ghozali, 2020).

This study offers novelty by combining Islamic Corporate Governance (ICG), organizational culture, and the role of the Code of Ethics in one model to analyse fraud prevention in Islamic banks. Unlike previous studies that only focused on the effectiveness of the Sharia Supervisory

Board (SSB) or governance disclosure, this study highlights the interaction between various types of organizational culture (Clan, Adhocracy, Market, and Hierarchy) with ICG in influencing fraud (Mukhibad & Nurkhin, 2019; Najib & Rini, 2016). In addition, this study also assesses how the Code of Ethics acts as a moderating mechanism to strengthen the impact of ICG in reducing fraud, an aspect that is rarely studied in the context of Islamic banking (Rahmawaty & Rahmayani, 2017).

Another uniqueness of this study is mapping the characteristics of organizational culture in Indonesian Islamic banks, something that has not been widely applied in similar studies. This approach allows for more specific identification of which Islamic banks are closer to certain cultural types and how these cultural characteristics contribute to fraud rates. By using panel data regression, this study also provides stronger empirical evidence on the relationship between ICG, organizational culture, and fraud. Specific insights offered are how certain types of culture can strengthen or weaken the effectiveness of ICG in preventing fraud, as well as how strengthening ethical standards can be a solution in the governance system of Islamic banks. This has direct implications for regulators and management of Islamic banks to design more effective governance strategies that are in accordance with the character of their organizations (ElKelish & Hassan, 2014; Khan & Zahid, 2020).

The analysis of corporate governance reports and annual reports of Islamic banking institutions that were registered with the Financial Services Authority between 2015 and 2020 is the main goal of this study. Islamic banking was chosen as the object of research due to its inherent values based on Sharia principles, which should be implemented in corporate governance and organizational culture to prevent fraudulent practices. This study intends to provide light on the prevalence of fraud in Indonesian Islamic financial institutions by analysing the link between Islamic Corporate Governance, Organizational Culture, and Code of Ethics.

2. Literature Review

2.1 Agency Theory

The paper "Managerial Behavior, Agent Costs and Ownership Structure" by Jensen and Meckling (1976) elaborated on agency theory and described the conflict that results from the division of ownership and power. Agency theory likely an example of some relationship that occurs between investors (principals) and management (agents), where there are often differences in goals, for example, managers are more focused on gathering and maintaining personal interests rather than maximizing strategic profits (Bebchuk & Fried, 2003). Agency problems arise due to the potential of the agent or manager who does not carry out the best decisions or actions as intended by the company owner (Najmudin, 2011). There are three assumptions underlying agency theory (Eisenhardt, 1989), namely obligated under fiduciary law to work in the best interests of all parties involved, not just investors. Since it authorizes all of the transactions and operations of Islamic banks, a Sharia Supervisory Board is a need in the world of Islamic banking. This highlights the vital role that the Sharia Supervisory Board plays, positioning it as one of the key players in Islamic banking.

1. **Assumptions about Human Nature**
   The assumptions regarding human nature suggest that individuals are inherently self-interested, exhibit bounded rationality, and prefer to avoid risks

2. **Organization Assumptions**
   Assumptions about organizations suggest that there is a natural conflict between organizational effectiveness, which is measured by productivity, and the interests of different stakeholders. Additionally, information asymmetry between principals and agents can be a source of conflict.

3. **Information Assumptions**
   Assumptions about information suggest that agents often possess more information than principals, leading to an imbalance in the information available to investors and agents. This can result in a principal-agent problem.

2.2 Stakeholders Theory

Stakeholder theory was developed by R. Edward Freeman, a Professor of Business Administration, to address business problems such as value creation, ethical issues of capitalism, and managerial mindset (Ghozali, 2020). The Sharia Supervisory Board (DPS) is essential to Islamic finance since it advises and monitors the business's activities to guarantee adherence to sharia rules (Bank Indonesia - a, 2009). The Board of Commissioners oversees and monitors the company's entire business operations in its capacity as an investor representative. The agent, who happens to be the company management, is obligated under fiduciary law to work in the best interests of all parties involved, not just investors. Since it authorizes all of the transactions and operations of Islamic banks, a Sharia Supervisory Board is a need in the world of Islamic banking. This highlights the vital role that the Sharia Supervisory Board plays, positioning it as one of the key players in Islamic banking

2.3 Organization Culture

The concept of culture is intricate and multidimensional, including common values, conventions, beliefs, and behaviours that Mold people's conduct and affect how they view and feel about many facets of life (Hira, 2016). Organizational culture refers to the pattern of basic assumptions, values, and beliefs developed by a group to address external and internal issues for successful adaptation and integration (Batool et al., 2024; Prajogo & McDermott, 2005). It provides a framework for decision-making and guides employee behaviour, shaping their understanding of what is acceptable and expected in the workplace. Corporate culture is related to how employees perceive aspects of their corporate culture, so it is a descriptive concept (Robbins & Judge, 2013). This is where culture and climate come in because climate measures whether a particular culture is compatible with a particular employee's personal values. Corporate culture as a core value or essence of a weak or strong and inherent corporate philosophy, a culture that has the power to influence an organization to achieve success, recognized by all members of the Organization supports and provides the same understanding of shared direction and becomes a guide for the behaviour of organizational members.

Using the knowledge gained from Quinn and Cameron's previous research, the Organizational Culture Assessment Tool (OCAI) is a tool created to assess the many cultures that exist within an organization. These scholars have identified various cultural archetypes through their Competing Values Framework, which serves as the foundation for the OCAI. Organizations may create plans for development and improvement by using this tool to better understand their cultural strengths and weaknesses. The Competitive Value Framework model is useful to help explain various organizational phenomena. In his research on organizational performance, the research results of John Campbell and his colleagues (K. S. Cameron & Quinn, 2011) compiled the index into four main clusters, namely:

a. Clan culture (Clan culture), a culture that respects intimacy and cohesiveness to share, to organize like a family that takes care of each other.
b. Adhocracy culture (spiritual culture), a very dynamic culture, imbued with entrepreneurship and creativity. High priority values are innovation and the courage to take risks.
c. Market culture, which operates according to the mechanism of a market economy, by making transactions to gain competitive position.
d. Hierarchy culture, a culture that is highly organized and structured, in which every activity of each management department has a clear set of rules, consistent with what the organization wants.

2.4 Code of Ethics

Echols & Shadily (1995) in Rakhmawati (2020), elucidate that ethics encompasses a set of moral principles, etiquette, rightness, and a moral order. In the banking industry, ethics refers to the moral norms and principles that regulate behaviour (Jasevičienė, 2012). It is similar to other business sectors as it mirrors the ethical standards prevalent in society, including integrity, dependability, timely fulfilment of obligations, and honouring contractual terms.

In the banking industry, codes of ethics and professionalism are very important for bankers and the general public, especially for banks in carrying out their obligations to protect the rights and interests of customers, maintain stability and trust in financial markets and economic development (Carse et al., 2011), hereinafter known as banking ethics. According to Hatta and Yulianto (2021), a written code of ethics for bankers formally established by a professional organization. The banker's code of ethics aims to maintain the dignity of the banking profession, and to protect the public from abuse of professional expertise and/or authority.

Banking ethics are ethics and obligations related to duties in the banking environment for every bank officer, both bankers and bank leaders (Kasmir, 2012). Based on research related to ethics and fraud in banking, Research has shown that moral principles have a detrimental impact on employee deception (Said et al., 2017), fraud can arise from various factors such as deficient recruitment processes, inadequate employee training, excessive workload, inadequate internal control systems, and low levels of compliance among bank managers and employees. These factors can lead to unethical behaviour, including fraud, which can harm the bank's reputation and financial stability (Bhasin, 2015).

2.5 Islamic Corporate Governance Influences Fraud

Sharia Commercial Banks and Sharia Business Units must apply Good Corporate Governance, which includes establishing a Sharia Supervisory Board, in accordance with Bank Indonesia Regulation (Bank Indonesia, 2009). This framework sets sharia banking's corporate governance apart from traditional banking. According to PBI No. 11/33/2009, the DPS serves as an advisor and supervisor to the directors, ensuring that the bank's activities align with sharia compliance standards. This underscores the crucial role played by the DPS in promoting ethical behaviour and ensuring compliance with sharia principles in Islamic banking.

Referring to agency theory, human assumptions and organizational assumptions (Eisenhardt, 1989) have been fulfilled in DPS as independent variables. The company's internal control function is determined and improved by the number of DPS, the number of DPS meetings, the DPS's history, and their education in order to satisfy the assumption of limited rationality towards human assumptions. The DPS is becoming more and more effective in terms of its size, frequency of meetings, attendance at meetings, background, and educational attainment. This indicates that the DPS's function in the sharia banking industry is becoming more and more reasonable.

According to the findings of the research (Ngumar et al., 2019), by guaranteeing that sharia principles are followed in bank operations, the Sharia Supervisory Board (DPS) is essential in preventing fraud. This finding highlights the importance of having a strong DPS in Islamic banking. Additionally, the study (Said et al., 2017) suggests that having a Code of Ethics in place can have a significant negative impact on fraud. This emphasizes the need for promoting ethical behaviour in the Islamic banking industry. Accordingly, it may be assumed that based on the justifications given above:

Ha1: Islamic Corporate Governance has a negative effect on the occurrence of fraud.

Ha2: The Code of Ethics reinforces Islamic Corporate Governance's detrimental impact on fraud incidence.

2.6 Clan Culture has An Effect on Fraud

Clan culture represents a distinct organizational culture type that prioritizes and fosters strong relationships and family-like structures among members within the company (Susilo, 2018). This type of culture is often characterized by a communal approach to decision-making, with leaders taking on a facilitator role to resolve conflicts and foster positive relationships between team members. The effectiveness of clan culture is often measured by the cohesiveness of the group, the development of employee morale, and the management of human resources (K. S. Cameron & Quinn, 2011). Guidelines for management in a clan culture typically prioritize employee participation in decision-making processes and work dynamics. This approach fosters a sense of commitment among employees and encourages their involvement in the company's management processes. Overall, clan culture emphasizes the importance of personal connections and collaboration to achieve organizational success.

Dinata et al. (2018) research indicates that nepotism has consequences for fraud. This rationalization is used to launch his actions with the habit of feeling safe because all are family. Employee interests take precedence over those of outside parties in companies with a clan culture. However, from previous studies it was found that the Code of Ethics has an impact on preventing fraud. Meanwhile, ElKelish and Hassan (2014) states that clan culture does not affect risk disclosure. Thus, the hypothesis related to Clan Culture is as follows:

Hb1: Fraud occurrences are positively impacted by clan culture.

Hb2: Ethics code negates the positive influence of Clan Culture on Fraud.

2.7 Fraud Influenced by Adhocracy Culture

In reaction to ambiguity, unpredictability, and quickly evolving business settings, an adhocracy culture is a kind of organizational culture that prioritizes innovation, agility, and creativity. This Adhocracy culture encourages everyone in the company to take risks and maximize their creativity. Companies that are included in this culture emphasize flexibility where the company can make changes depending on the conditions that occur. The flexibility in question can be in the form of spontaneity, change, openness, and adaptability (K. S. Cameron & Quinn, 2011).

Because this culture focuses on external factors, the company will minimize its risk disclosure in order to reduce costs that may arise. So the company can remain a major provider of innovative product lines. Thus, when the corporate adhocracy culture is high, the level of risk disclosure will be lower. Openness and transparency encourage every individual in the organization to be more professional. While Said et al. (2017) discovered that the Code of Ethics has a negative effect on fraud, Elkelish and Hassan's (2014) research suggests that risk disclosure is unaffected by this culture. Given this description, it is feasible to formulate the study's hypotheses as follows:

Hc1: The prevalence of fraud is negatively impacted by adhocracy culture.

Hc2: The Code of Ethics strengthens the negative influence of Adhocracy Culture on the occurrence of Fraud.

2.8 Market Culture Affects Fraud

Relationships with outside parties' suppliers, clients, regulators, and others are the focal point of this culture. The primary objective of market culture is to provide businesses a competitive edge through external party transactions (K. S. Cameron & Quinn, 2011). Companies in a market culture focus on the external environment (ElKelish & Hassan, 2014).

Market culture that pursues external targets and goals, the company's business success is measured by the ability to satisfy its customers, so to achieve this requires a series of management and good governance within the company in order to compete. Also pay attention to the Code of Ethics which has a negative effect on fraud (Said et al., 2017). Therefore, the hypothesis related to market culture is as follows:

Hd1: Market Culture is detrimental to the prevalence of fraud.

Hd2: Ethics code reinforces negative influence of Market Culture on Fraud.

2.9 The prevalence of fraud is negatively impacted by hierarchical cultures.

According to Cameron and Quinn (2006), companies that are included in this culture require their members to follow established formal rules and procedures. Internal control is one of the characteristics of this culture. Companies with highly hierarchical cultures will implement their policies with strict rules and procedures. According to Cameron and Quinn (2006), standardizing protocols and rules, establishing control and accountability systems, and making power in clear decision-making are all essential for success in a hierarchical society. Companies with a hierarchical culture will always prioritize business performance. The company's performance criteria are characterized by efficiency, timeliness and smoothness of the company. Error identification, process control, measurement improvement, and methodical issue resolution are the components of strategy in a hierarchical culture. Administrative specialists who concentrate on developing an effective infrastructure are needed to establish a hierarchical culture.

Organizations that adopt a hierarchical culture tend to provide more comprehensive risk disclosures to ensure their smooth and efficient operation (ElKelish & Hassan, 2014). This enables managers to clarify roles and rules and encourages compliance with applicable regulations. Organizations should consider the deterring effect of implementing a Code of Ethics on the prevalence of fraud (Said et al., 2017). Thus, the hypothesis that is built is as follows:

He1: The prevalence of fraud is negatively impacted by hierarchical cultures.

He2: The prevalence of fraud is negatively impacted by hierarchical cultures.

3. Research Method

3.1 Sample and Collection

An Full Pledge Islamic Bank (BUS) that is registered with the Financial Services Authority and has released an Annual Report and GCG Implementation Report between 2015 and 2020 is the subject of the analysis unit. Secondary data has been used as the data type in this investigation. All Indonesian sharia commercial banks are included in the research population. All Islamic commercial banks in Indonesia that have the necessary data for this study comprise the research sample. To be precise, the number of samples in this study accounts for 14 Islamic commercial banks, representing a saturated sample that encompasses the 2015-2020 research period. The number of observations made in this study were 84. For sample selection, a purposive sampling method was employed.

3.2 Measurement

Panel data regression was performed using e-views software. The use of panel data, which combines cross-sectional and time series data, led to the selection of panel regression analysis (Savitri et al., 2021). Using several observations of an object at various periods, this panel data is utilized to identify important characteristics. Regression analysis has the following equation:

$$F_{it} = \alpha + \beta_1 \text{ x } ICG_{it} + \beta_2 \text{ x } CC_{it} + \beta_3 \text{ x } AC_{it} + \beta_4 \text{ x } MC_{it} + \beta_5 \text{ x } HC_{it} + \beta_6 \text{ x } ICG_{it} \text{ x } KE_{it}$$

$$+ \beta_7 \text{ x } CC_{it} \text{ x } KE_{it} + \beta 8 \text{ x } AC_{it} \text{ x } KE_{it} + \beta_9 \text{ x } MC_{it} * KE_{it} + \beta_{10} \text{ x } HC_{it} \text{ x } KE_{it} + \beta_{11} \text{ x } BOPO_{it} + \beta_{12} \text{ x } CAR_{it} + \beta_{13} \text{ x } NPF_{it} + \beta_{14} \text{ x } TA_{it} + \varepsilon_{it} \quad \text{.... ....} \quad (1)$$

Information

F	: Fraud
α	: Constant
β1-14	: Regression coefficient
KE	: Code of ethics
ICG	: Islamic Corporate Governance

CC : The Culture of Clan

AC : The Culture of Adhocracy

MC : The Culture of Market

HC : The Culture of Hierarchy

TA : Total Assets

BOPO : Operating Expenses / Operating Income Ratio

CAR : The Ratio of Bank's Capital Adequacy

NPF : The Ratio of Non-Performing Financing

ε : error

3.3 Islamic Corporate Governance

The Sharia Supervisory Board, which is a component of the Islamic banking structure, and the implementation of responsibility criteria will be selected by the researcher. The ICG Effectiveness Proxy of the ICG structure is based on PBI no. 11/33/PBI/2009, which contains six criteria. In addition, the investigator used the following standards to index the elements.

The body could be divided into sections. Sections should be bold. Subsections should be italic. Whichever spelling you choose (British or American English) please **be** consistent throughout. Use hyphens consistently and avoid unnecessary ones. The words “section(s)”, “equation(s)”, “figure(s)” and “reference(s)” are abbreviated as “sect(s).”, “fig(s).”, “eq(s).” and “ref(s).” unless they are the first word of a sentence. The word “table” is always written in full. Latin expressions, such as, e.g., i.e., et al., versus (vs.) should be set in italic. All terms or titles in Arabic should be transliterated with following the Library of Congress guide. Name of person should not be transliterated.

1. Total DPS,
   Citing Bank Indonesia regulations, a minimum of two individuals or half of the entire number of directors must be on a Sharia Supervisory Board.
2. The quantity of meetings held by the Sharia Supervisory Board,
   The DPS is mandated by Bank Indonesia Regulations to convene meetings at least once a month, or twelve times a year.
3. DPS Meeting Attendance Level
   Percentage of DPS attendance at meetings held for one year.
4. Formal educational background
   Scientific background and experience in the Sharia Economics/Banking/Finance Sector. This weighting is the same as that of Mukhibad and Nurkhin (Mukhibad & Nurkhin, 2019) but researchers use weights of 1, 0.5 and 0, namely by giving the following weights:
   i. related to Islamic Banking, Economics, Finance - given a weight of 1
   ii. related to non-economic sharia knowledge, finance or banking – given a weight of 0.5
   iii. other than above – given a weight of 0
5. DPS Education Level

6. The weighting for educational level is the same as that carried out by Mukhibad and Nurkhin (2019), where each weight is as follows.
   i. S1 - assigned a weight of 1
   ii. S2 – given a weight of 2
   iii. S3 – assigned a weight of 3

3.4 Organizational Culture

Clan Culture

The overall pay provided to workers as a percentage of operational expenditures is a proxy variable that indicates the Clan Culture, where human resource development is prioritized (ElKelish and Hassan, 2014). This can give insight into how much the organization invests in their employees for the long-term benefit of the company.

Adhocracy Culture

Adhocracy Culture is known for taking more risks in pursuit of predetermined targets (ElKelish and Hassan, 2014). Thus, a proxy variable that reflects this culture is operating income fluctuations, which indicates how management is more accepting of risk and changes in financial indicators.

Market Culture

Market Culture is a way of doing business that aims to make more money and beat the competition by increasing productivity, profitability, and market share. To measure how well a company is doing under this culture, financial indicators like ROA, ROE, and ROI are used. These numbers help show how successful the company is in achieving its financial goals and competing with others.

Hierarchy Culture

The ratio of transaction expenses to net income is the quantity used to measure this variable. This proxy refers to Elkelish and Hasan (2014) to measure hierarchical culture. Transaction costs are costs associated with effecting economic changes. Transaction costs are expenses associated with trade realization in an economy, as determined by the total compensation of workers who provide transaction services for the business (Elkish and Hasan, 2014). According to Elkish and Hasan (2014), a number of indicators, including total interest expenses, accrued interest-based liabilities, non-interest expenses like salaries and employee benefits, rental expenses, building expenses, and other costs, can be used to measure transaction costs for service companies like banks. Meanwhile, the relationship between transaction costs and culture is explained by Williamson (1975) and Paton (1996) in Elkish and Hasan (2014), namely transaction costs in hierarchical organizations are lower. Transaction costs as a proxy for assessing hierarchical culture are thus used by Elkish and Hasan (2014) in place of net revenue. Transaction costs for sharia banking are the burden of profit sharing of third party funds, *wadiah* bonus expenses, labour costs and general admin expenses.

3.5 Ethics Code

The variable in ethics code is obtained from a comparison between the Code of Ethics in force in Islamic Banks and the Code of Ethics for Bankers issued by the Indonesian Bankers Association (Indonesian Bankers Association, 2005) , which consists of:

1. A banker must follow laws, regulations, and ethical standards to keep the financial system safe and secure.
2. It is the duty of a banker to maintain accurate records to ensure transparency and accountability.
3. Unfair competition must be avoided by a banker as it can harm the stability of the financial system and customer trust.
4. A banker should not use their position for personal benefit to avoid conflicts of interest and maintain the integrity of the banking system.
5. When faced with a conflict of interest, a banker should recuse themselves from decision-making to avoid bias or unethical behavior.
6. Confidentiality of customer information and bank operations is critical for customer trust, and bankers should protect it.
7. An individual working in banking must take into account how the bank's policies and choices affect the economic, social, and environmental situations of the community.
8. Bankers must not accept gifts or rewards that enrich themselves or their families and avoid actions that could harm the banking profession's reputation.
9. Maintaining the integrity and confidence of the banking industry depends on upholding the highest ethical and professional standards.

3.6 Internal Fraud

In this study, fraud is the dependent variable. The definition of fraud is found in SE.BI No.13-28-DPNP 2011 (Bank Indonesia - c, 2011) , as any action or behavior that intentionally manipulates, deceives, or misleads in order to take advantage of banking facilities, resulting in losses and/or financial gain for the perpetrator directly or indirectly.

To be clear, the number of internal fraud instances that Islamic banks publish in their yearly Good Corporate Governance (GCG) reports is analyzed in this study to determine the prevalence of fraud in these institutions (Najib & Rini, 2016). Fraud can happen in a workplace, and it's called occupational fraud or internal fraud. In Indonesia, Sharia banks are required to report any internal fraud cases that happened during the year in their annual Good Corporate Governance (GCG) report. Using the number of documented internal fraud instances, this study helps in quantifying the prevalence of fraud in Islamic banks. By using this method, it allows for a consistent and trustworthy way of measuring fraud across various Islamic banks.

4. Research Result

This research belongs to the type of causal-comparative research (Rianse & Abdi, 2008) that aims to identify causal relationships between variables by observing existing effects and analysing data. In this study, a quantitative method approach was used, which is designed to test hypotheses and collect data to support or disprove them (Creswell, 2003). To collect data, instruments were used to measure attitudes, and statistical procedures and hypothesis testing were employed to analyse the information gathered. This approach allows for a more objective and systematic analysis of the data, providing a more reliable and valid basis for drawing conclusions and making recommendations.

4.1 Hypothesis Test Results (Regression)

Panel data is used as the core data in model processing, which consists of combining cross section data (14 BUS) with series spanning 2015 to 2020. This is why panel data regression analysis was chosen. The following are the descriptive results of each variable.

Table 3. Descriptive Statistics

	Internal Fraud	Efektifitas Islamic Corporate Governance	Clan Culture	Adhocracy Culture	Market Culture	Hierarchy Culture	Kode Etik	BOPO	CAR	NPF	ROA	TA
Mean	5.952381	0.990021	0.399676	0.037285	0.013333	111.7665	0.555556	94.97988	31.23238	2.078095	1.333333	9.282738
Median	2.5	1.00000	0.409225	0.041643	0.011	4.876523	0.555556	92.095	20.095	1.815	1.1	9.070956
Maximum	83	1.332381	0.617638	31.58434	0.1358	5364.883	1	217.4	329.09	4.99	13.58	11.75122
Minimum	0	0.793333	0.057337	-35.99258	-0.2013	-608.7252	0	56.16	11.51	0	-20.13	6.495133
Std. Dev.	11.29229	0.089601	0.114637	7.513314	0.044013	644.9696	0.303679	26.06823	44.57189	1.691528	4.401289	1.238257
Skewness	4.438734	0.357653	-0.556564	-0.925831	-1.087365	7.120962	-0.577057	2.796815	5.203334	0.25173	-1.087365	-0.116862
Kurtosis	27.90524	5.512546	3.253199	16.87961	10.34331	55.85701	2.511259	12.47746	31.35021	1.680415	10.34331	2.588112
Jarque-Bera	2446.781	23.88593	4.561066	686.253	205.2876	10488.43	5.497956	423.8881	3192.115	6.981713	205.2876	0.784975
Probability	0	0.000007	0.10223	0	0	0	0.063993	0	0	0.030475	0	0.675375
Sum	500	83.1618	33.57277	3.131901	1.12	9388.389	46.66667	7978.31	2623.52	174.56	112	779.75
Sum Sq. Dev.	10583.81	0.666346	1.090762	4685.34	0.160782	34526819	7.654321	56402.88	164892.2	237.4853	1607.822	127.2623
Observations	84	84	84	84	84	84	84	84	84	84	84	84

Three techniques are used in the panel model: Common/Polled Effects, Fixed Effects, and Random Effects, according to Brooks, as described in Savitri et al. (2021). Some choice between Common Effects or Fixed Effects can be determined through the Chow Test, while the Lagrange Multiplier Test (LM Test) can be used to determine the more suitable model between Common Effects or Random Effects. In contrast, the Hausman's Test can be utilized to choose the more appropriate model between Fixed Effects or Random Effects.

Following data processing, the LM test revealed that the REM is a better fit than the OLS model (prob value = 0.0000), and the Chow Test demonstrated that the FEM is a superior option (prob value = 0.000). A Hausman test was used to find the optimal model between FEM and REM, and the findings indicated that FEM was the most suitable model to adopt (prob value = 0.000).

Table 4. FEM Model Regression Results

Variables	coefficient	std. Error	t-Statistics	Prob.	Information
ICG	22.3636	10.6412	2.1016	0.0416**	Significant
CC	15.5610	1.5809	9.8431	0.0000**	Significant
AC	0.0188	0.0811	0.2312	0.8183	Non-Significant
MC	-79.6018	22.4351	-3.5481	0.0010**	Significant
HC	-0.0026	0.0015	-1.7193	0.0929*	Significant
ICG*KE	-46.0032	18.8217	-2.4442	0.0188**	Significant
CC*KE	-28.1050	5.5562	-5.0583	0.0000**	Significant
AC*E	-0.1498	0.1173	-1.2766	0.2088	Non-Significant

MC*KE	115.2055	31.9873	3.6016	0.0008**	Significant
HC*KE	0.0044	0.0018	2.4046	0.0207**	Significant
BOPO	0.0151	0.0066	2.3062	0.0261**	Significant
CAR	0.0182	0.0073	2.4885	0.0169**	Significant
NPF	0.6884	0.1529	4.5023	0.0001**	Significant
TA	-1.5168	0.3107	-4.8823	0.0000**	Significant
C	20.6062	5.4715	3.7661	0.0005**	Significant

R-squared	0.8465
Adjusted R-squared	0.7478
SE of regression	4.2088
F-statistics	8.5763
Prob(F-statistic)	0.0000
Durbin-Watson stat	1.5051
Description: **) significant alpha 5% *) significant alpha 10%	

It is possible to explain why there is a large 74.78% impact (see Table 4) of Islamic Corporate Governance (EICG) and Organizational Culture (CC, AC, MC, and HC) on the incidence of fraud in Islamic banking at the same time. Hierarchical organizational culture, which emphasizes more formal work procedures, has a significant positive impact on disclosure. This is in line with Elkish and Hasan's (2014) research, which states that the influence of organizational culture on risk disclosure in the UAE establishes a quantitative measurement proxy for organizational culture types. Business dangers in the United Arab Emirates. Furthermore, bankers' capacity to fulfill their duties to safeguard clients' rights and interests, uphold the stability and confidence of the financial system, and promote economic growth depends greatly on the Code of Ethics (Carse et al., 2011). The results of the study on ethics and banking fraud indicate that employee fraud is negatively impacted by ethical beliefs (Said et al., 2017).

A T-test was used to assess the Islamic Corporate Governance (ICG) variable, and the results showed a t-value of 2.1016 with a probability value of (0.0416). Since the probability value is less than alpha 5%, it may be inferred that fraud is directly impacted by ICG, as represented by the index of the Sharia Supervisory Board's qualities. The positive coefficient of 22.3636 suggests that there will be more fraud as ICG rises. However, this finding contradicts the positive influence observed in this study, given that ICG, through the DPS attribute proxy, negatively impacts fraud in Islamic banks. The empirical data reveals that DPS measures at BSM, BRIS and BNIS do not display significant changes, yet data on fraud incidents from the three banks highlight a considerable frequency of fraud compared to other syariah banks. Thus, the number of Sharia Supervisory Boards in an Islamic bank does not directly correlate with the frequency of fraud. One may however counter that the Sharia Supervisory Board's existence should provide a remedy for fraud in sharia institutions. The Code of Ethics is highly successful in moderating ICG to prevent fraud, as seen by the outcomes of its moderation on fraud (KE). According to this, fraud may be significantly reduced by the Sharia Supervisory Board's efficacy. These findings align with (Ashari & Nugrahanti, 2021), which highlights ethical violations as a significant cause of bank failure.

Table 4 presents the results of a T-test that examines the effect of clan culture on fraud. The computed t-value is 9.88431 with a probability value of 0.0000. Clan Culture has a direct impact on fraud since the prob value (0.0000) is less than 5% alpha. The coefficient which is 15.5610 is positive, meaning that an increase in Clan Culture will be able to increase Fraud. According to the study's findings, there is a clear correlation between Clan Culture and Fraud; a positive coefficient indicates that there is a potential for increased Fraud. This supports the theory that fraud is positively impacted by clan culture. The substantial impact of the Code of Ethics is its ability to restrain Clan Culture and lower Fraud. This finding is consistent with a study by Dinata et al. (2018) that found nepotism to be connected to fraud. This rationalization is used to launch his actions with the habit of feeling safe because all are family. Employee interests take precedence over those of outside parties in companies with a clan culture. However, Elkelish and Hassan's (2014) findings, which claim that clan culture has no impact on risk disclosure, vary from those of this study.

The findings of the T-test, which show a t-value of 0.0811 with a probability value of (0.8183), illustrate the investigation of the effect of Adhocratic Culture on Fraud. Given that the probability value (0.8183) is higher than the alpha threshold of 5%, it appears that Adhocratic Culture has no direct impact on fraud. Similarly, when the Adhocracy Culture variable is moderated, the code of ethics exhibits a t-value of -1.2766 and prob (0.2088). As the prob value (0.2088) is above the alpha 5% and the regression coefficient -0.1498 is negative, it infers that the impact of the Code of Ethics is not significant in moderating Adhocracy Culture in reducing fraud. The findings of the study reveal that Adhocracy Culture does not possess a direct effect on Fraud, and the negative regression coefficient implies that the Code of Ethics' effect is insignificant in moderating Adhocracy Culture in reducing Fraud. Therefore, H3 is considered valid. This outcome is in line with the study carried out by Wahid ElKelish & Kamal Hassan (2014), which concluded that this culture does not influence risk disclosure.

The T-test findings for the Influence of Market Culture on Fraud show a calculated t value of -3.5481 together with a probability value of (0.0010). Given that the probability value (0.0010) is less than the alpha threshold of 5%, it can be said that market culture has a direct impact on fraud. The negative coefficient of -79.6018 indicates that an increase in Market Culture can reduce fraud. The T-test findings, however, indicate a t value of 3.6016 with a probability (0.0008) when the Code of Ethics is used as a moderator for Market Culture. With a regression coefficient of 115.2055 and a probability value of 0.0008, which is less than alpha 5%, it is implied that the Code of Ethics modifies Market Culture significantly, which increases fraud. The results demonstrate that the Code of Ethics effectively moderates Market Culture, leading to an increase in fraud. These findings contradict the conclusions of Wahid ElKelish & Kamal Hassan (2014), which assert that market culture does not impact risk disclosure.

With a probability value of 0.0929, the T-test yields a calculated t value of -1.7193 regarding the influence of Hierarchy Culture on Fraud. Given that the probability value is below the 10% alpha criterion, it appears that hierarchical culture has a direct impact on fraud. The negative coefficient of -0.0026 suggests that there will be less fraud if Hierarchy Culture increases.

The T-test reveals a t value of 2.4046 with a probability value of 0.0207 when examining the function of the Code of Ethics in moderating Hierarchy Culture. Given that the probability value is below the 5% alpha threshold, it can be concluded that Hierarchy Culture's tendency to increase fraud is somewhat restrained by the Code of Ethics. Confirming this impact is the positive regression coefficient of 0.0044.

4.2 Mapping of Bank Characteristics an Testing

According to Cameron and Quin, the purpose of this study is to examine the trend of Islamic banking in the kind of organizational culture. Culture inside an organization is made from:

1. The Culture of Clan (CC)
2. The Culture of Adhocracy (AC)
3. The Culture of Market (MC)
4. The Culture of Hierarchy (HC)

The researchers employed a technique called Principal Component Analysis (PCA) with Biplot to understand the culture of Islamic banking. According to Jolliffe (1986) in (AR et al., 2018), PCA is a commonly used method in data analysis across various fields of science (Kherif & Latypova, 2019). PCA is a tool commonly used in many fields to analyse large and complex datasets with many variables. Its objective is to identify a more manageable feature collection that accurately captures the original data. PCA was used to map the culture of different Islamic banks to specific traits.

Meanwhile, Biplot is an analysis that can be used to perform positioning or perceptual mapping of a set point observation (AR et al., 2018). The final results of this analysis will be presented in the form of a display a two-dimensional image that contains information about the relative position between objects, the relationship between attributes and through combining position information and the relationship between attributes, the characteristics of each object will be known based on the observed attributes. Another benefit of this analysis is that it can be used for segmentation or translating segments formed from the results of other analyses.

In this study, we carried out several stages to map Full Pledge Islamic Bank (BUS) characters. The steps taken are as follows:

1. Calculating the standardized values of the 4 CC, AC, MC and HC indicators for each BUS
2. Calculating the PCA score of each value in 2015-2020 into one standard PCA score
3. Mapping each Islamic Bank against standard values with PCA CC, AC, MC and HC scores

Table 5. PCA Score

Bank	PCA SCORE			
	CC	**AC**	**MC**	**HC**
BMI	2.1716	0.4968	-0.9559	2.5652
BMS	-3.2912	1.2981	-0.0833	-0.5974
BSB	-0.7480	0.1504	-1.0760	4.9698
PBS	0.3306	-1.4108	-1.8888	0.7034
BVIS	2.5867	1.1305	-1.1679	0.1272
BCAS	0.3560	0.4177	-0.2974	-0.8635
BJBS	-1.6331	-4.4247	-1.2713	-0.2129
BALS	0.1730	-0.2135	-0.4305	-1.2142
BTPNS	2.2436	0.4356	5.2012	-1.0998
BASS	1.8409	0.2464	0.3755	-1.0893
NTBS	-0.6940	0.2159	0.5128	-1.0494
BNIS	0.6839	0.3415	-0.1123	-0.9869
BRIS	-2.6275	1.0152	1.4903	-0.4832
BSM	-1.3926	0.3008	-0.2963	-0.7691

Source: PCA analysis results

By using the PCA score as in the PCA score table, then it is then included in the Biplot analysis. The following is a graph of the Biplot results

Biplot results are able to map each Islamic Bank (BUS) against Organizational Culture Character. BJBS is the only bank that is far from an Organizational Culture character consisting of HC, CC, AC and MC. the results of calculating the BJBS PCA score are negative for all indicators or in terms of data having the lowest value across all indicators compared to other banks. If sorted by quadrant

1. Quadrant I - The quadrant that has the lowest HC, CC, AC and MC values with only BJBS in quadrant I
2. Quadrant II - Those that fall under the BCA, BNI, Bank Mega, Bank Syariah Mandiri, NTB, Bank Aladin, and BRI Syariah quadrants are good examples of Market Culture (MC) quadrants.
3. Quadrant III – Quadrant that has a strong character in Adhocracy Culture (AC), namely Bank Aceh Syariah and BTPN Syariah. While the Bank owns strong character in Clan Culture (CC) is Bank Victoria Syariah Bank.
4. Quadrant IV – Hierarchy Culture (HC) quadrants with a strong character are Bank Panin Syariah, Bank Syariah Bukopin, and Bank Muamalat Indonesia.

Some findings from organizational character culture for Islamic banking are in Market Culture. However, one of the BJBS phenomena shows that there is a BUS position that is not in one type of organizational culture.

5. Conclusion and Suggestion

The study's conclusions show that Islamic Corporate Governance (ICG) has a beneficial effect on fraud, but that this effect can also become negative when the Code of Ethics is applied moderately. Furthermore, Clan Culture is found to have a positive impact on fraud, indicating that it elevates the likelihood of fraudulent activities. Nonetheless, with the Code of Ethics as a moderator in Clan Culture, it can mitigate fraud. Adhocracy Culture does not demonstrate any significant impact on fraud, either independently or when moderated by the Code of Ethics. In contrast, Market Culture exerts a detrimental effect on fraud, but with the moderation of the Code of Ethics, its impact is transformed into a positive one. Notably, the study underscores that Hierarchy Culture has an adverse effect on fraud.

From the characteristics of sharia banking, empirically it is known that 7 Islamic commercial banks are close to market culture, while 3 BUS are close to a hierarchical cultural character, while 2 BUS are close to adhocracy cultural characteristics, 1 BUS is characterized by clan culture and one BUS is not close from the four types of organizational culture.

Limitation and Implication

Limitation

Since this study only looked at BUS in Indonesia, future research should be able to investigate other Islamic banks, such as BPRS, in order to expand the sample size and look at other characteristics that have not been looked at. Future studies are expected to use other proxies for the Code of Ethics which are referenced by regulators. This study uses panel data regression to analyse the relationship between Islamic Corporate Governance (ICG), organizational culture, and fraud. However, the selection of proxies to measure these variables may have potential bias. For example, the effectiveness of the Sharia Supervisory Board (SSB) is measured by the number of members and the frequency of meetings, which may not fully reflect the quality of supervision against fraud. In addition, the use of the code of ethics as a moderating variable may have limitations in capturing ethical values applied in daily practices in Islamic banks.

The data used in this study only covers 14 Islamic commercial banks (BUS) in Indonesia during the period 2015-2020. This limitation may reduce the generalizability of the study results to other Islamic banks, such as Islamic Rural Banks (BPRS) or Islamic banks in other countries. The data sources come from annual reports and Good Corporate Governance (GCG) reports, which may have confidentiality in transparency and completeness of data related to fraud. Not all cases of fraud may be recorded or reported in full in official documents.

The results of this study are specific to the context of Islamic banking in Indonesia and may not necessarily be generalized to Islamic banking systems in other countries with different regulations and organizational cultures. This study also uses the Competing Values Framework (CVF) approach to group organizational cultures into four types (Clan, Adhocracy, Market, and Hierarchy), which may not fully match the characteristics of Islamic banking organizational cultures in other regions.

Implications

This study aims to provide significant contributions to policy implications for academics, company management, and government regulators. The findings are expected to enrich the knowledge and inform decision-making for these stakeholders.

Policy Implications for Islamic Banks

The policy implication for the company is that Islamic Banks need to carry out an in-depth analysis regarding the effectiveness of Islamic Corporate Governance in the current structure associated with existing fraud incidents. In addition, Islamic banks as business entities need to review their organizational culture models, with this understanding Islamic banks can encourage efforts to prevent fraud.

Implications for Regulators

The Code of Ethics has proven to be able to strengthen efforts to reduce fraud, but currently there is no regulatory reference from the regulator that regulates the minimum standards of the Code of Ethics in Islamic Banks. One important proposal based on the research findings is that regulators create rules requiring the Code of Ethics in Islamic Banking to be implemented.

Implications for Academics

This work serves as a foundation for further investigation. Certain aspects of this study, especially those relating to the presence of Islamic banks that do not fall into one of the four categories of organizational culture, still require further investigation. In addition, Islamic Corporate Governance variable as a proxy for the attribute index of the Sharia Supervisory Board requires a deep understanding of the value and weight of each attribute.

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