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GUARDING INTEGRITY: HOW SPIRITUAL LEADERSHIP SHAPES FRAUD PREVENTION THROUGH CULTURE AND MOTIVATION

Muhamad Ardi Nupi Hasyim*[1], Muhamad Arief Ramdhany[2]
[1]Universitas Koperasi Indonesia, Indonesia
[2]Universitas Pendidikan Indonesia, Indonesia

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ABSTRACT: This study examines how spiritual leadership curbs fraud in Indonesian financial service companies through the mediating role of organizational culture and the moderating role of employee motivation. Using a quantitative design, data were collected from 220 employees across banking and non-banking institutions through a five-point Likert survey. The hypotheses were tested using Partial Least Squares (PLS) analysis. Results show that spiritual leadership exerts a significant direct and indirect effect on fraud prevention via organizational culture. While employee motivation does not moderate the link between spiritual leadership and fraud prevention, it strengthens the relationship between organizational culture and fraud prevention. The findings underscore the importance of embedding spiritual leadership and cultivating an ethical organizational culture to reinforce integrity systems, with employee motivation acting as a vital reinforcing factor.

Keywords: Employee Motivation; Financial Service Companies; Fraud Prevention; Organizational Culture; Spiritual Leadership

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INTRODUCTION

Financial service companies, including banks and non-bank financial institutions, are crucial to global economic development and stability (Chen et al., 2023), including Indonesia. These institutions mobilize savings, facilitate investment, extend credit, and provide essential services to individuals and businesses. In Indonesia, the sector plays a central role in driving growth, promoting financial inclusion, and supporting infrastructure development (Yusgiantoro et al., 2019). Given this strategic importance, maintaining the integrity and reliability of financial institutions is essential. Yet the sector remains vulnerable to fraud, which erodes trust and threatens economic stability (Pham & Doan, 2020).

Weak fraud prevention exposes firms to financial losses, regulatory sanctions, reputational damage, operational disruptions, and long-term sustainability risks (Rezaee, 2016). Effective prevention safeguards assets (Kazemian et al., 2019), ensures compliance with AML and KYC regulations (Thommandru & Chakka, 2023), strengthens ethical conduct, and preserves stakeholder trust (Astuti et al., 2019). Strong internal controls (Handoyo & Bayunitri, 2021), transparent governance (Akyol, 2020), ethical culture (Efendi et al., 2024), employee training (Astriana & Adhariani, 2019), technological monitoring systems (Priya & Saradha, 2021), and compliance practices (Fajri & Setiany, 2024) are therefore central. Leadership that prioritizes ethical or spiritual values reinforces these mechanisms by modelling integrity and influencing behavior throughout the organization (Yohanna et al., 2021).

Spiritual leadership strengthens fraud prevention by embedding moral, religious, and ethical principles into policies and daily practices. Leaders who consistently uphold these values cultivate integrity, encourage honesty, and create internal accountability (Black et al., 2022). Spirituality at work also fosters purpose and responsibility, enhancing ethical conduct and quality of work life (Pio & Lengkong, 2020). When such values shape organizational expectations and decision-making norms, potential fraudsters face strong cultural deterrents, while transparency and trust gain reinforcement (Göçen & Özğan, 2018).

The influence of spiritual leadership depends heavily on organizational culture and employee motivation. Spiritual leadership promotes ethical behavior (Fry et al., 2017; Sanders, 2017), but its impact is mediated by organizational culture: only when cultural norms align with ethical expectations does leadership translate into consistent fraud-resistant behavior. Employee motivation further moderates this relationship; motivated employees who identify with organizational values are more likely to uphold ethical standards and report irregularities (Fry, 2003). These dynamics suggest a complex but promising pathway through which spiritual leadership can strengthen fraud prevention in Indonesia's financial sector.

Despite emerging interest, research linking spiritual leadership to fraud prevention remains limited (Göçen & Özğan, 2018; Oh & Wang, 2020; Pio & Lengkong, 2020). Studies seldom examine the direct relationship in financial service contexts. The mediating role of organizational culture is similarly underexplored, even though culture is widely known to shape ethical conduct.

The moderating role of employee motivation has also received little empirical attention. Moreover, research in emerging economies remains sparse, despite the distinctive cultural and religious contexts that may alter these relationships. These gaps present opportunities to extend theory and practice.

This study examines the impact of spiritual leadership on fraud prevention in Indonesian financial service companies, with organizational culture as a mediator and employee motivation as a moderator. The study deepens understanding of how spiritual values embedded in leadership practices can reduce fraud and offers practical guidance for cultivating ethical cultures, motivating employees, and strengthening fraud prevention systems.

THEORETICAL REVIEW

Fraud Prevention

This study uses criminology and organizational behavior theories to explain fraud prevention in financial service companies. Fraud Triangle Theory states that fraud emerges when pressure, opportunity, and rationalization align (Homer, 2020). Pressure reflects financial or emotional stress. Opportunity appears when internal controls fail. Rationalization is the personal excuse that makes unethical actions feel acceptable (Van Akkeren, 2023).

Fraud prevention also aligns with General Deterrence Theory. The theory argues that people avoid fraud when punishment is severe, certain, and swift (Nehme et al., 2018). Severity concerns the weight of penalties. Certainty refers to the chance of being caught. Celerity reflects how fast the sanction is delivered (Bhattacherjee & Shrivastava, 2018). Strong systems make each element visible to potential offenders.

These theories support a clear structure for defining fraud prevention in financial institutions. Prior studies outline several core dimensions: internal control effectiveness, fraud detection mechanisms, employee training and awareness, corporate governance and ethical culture, regulatory compliance, incident response and investigation, and technological safeguards (Akyol, 2020; Astriana & Adhariani, 2019; Efendi et al., 2024; Fajri & Setiany, 2024; Handoyo & Bayunitri, 2021; Priya & Saradha, 2021).

Spiritual Leadership

Spiritual leadership integrates spirituality and leadership by emphasizing inner life, values, and ethical conduct. It inspires and motivates employees through meaning, purpose, and connection within the organization (Göçen & Özğan, 2018). Core practices include self-awareness, empathy, ethical action, and building community. Leaders who adopt this approach create environments where employees feel valued, supported, and aligned with organizational goals and ethical standards.

Spiritual leadership strengthens ethics across sectors. In government, it promotes public trust, transparency, fairness, and institutional integrity (Jabeen et al., 2017). In business, including financial service companies, it supports ethical behavior, strengthens corporate culture, and improves performance (Oh & Wang, 2020). Leaders act with integrity, make ethical decisions, and foster purpose, which reduces fraud and misconduct. In education, it encourages ethical behavior, supports positive learning environments, and improves outcomes (Egel & Fry, 2017).

The approach is flexible and effective across institutional settings. It promotes ethical conduct, reinforces culture, and supports sustainable organizational outcomes. In government it enhances accountability; in business it drives engagement and ethical discipline; in education it builds supportive, values-based communities. Existing studies outline several key dimensions of spiritual leadership (Egel & Fry, 2017; Fry, 2003; Fry et al., 2017; Fry & Egel, 2016; Pio & Lengkong, 2020; Sanders, 2017): (1) vision, a clear and inspiring direction for the organization; (2) hope/faith, confidence that the vision is achievable; (3) altruistic love, genuine care and appreciation for others; (4) meaning/calling, a sense of purpose in work; (5) membership, a sense of belonging and community.

Organizational Culture

Much of the literature focuses on organizational culture as a key driver of performance. A strong and positive culture is linked to higher morale, greater productivity, and stronger overall performance (Efendi et al., 2024; Fajri & Setiany, 2024; Pangarso et al., 2022). Employees who share common values and beliefs tend to be more engaged, motivated, and aligned with organizational goals (Sawangnuwatkul, 2021). A robust culture also supports teamwork, innovation, and adaptability in facing change (Abdullah et al., 2014). These findings show that organizational culture is central to long-term success and competitive advantage (Azeem et al., 2021).

This study applies Denison's Organizational Culture Model to explain how culture shapes organizational outcomes. The model includes four dimensions: involvement, consistency, adaptability, and mission (Abdullah et al., 2014; Costanza et al., 2016; Fry & Cohen, 2009; Mousavi et al., 2015; Wahyuningsih et al., 2019). Involvement reflects employee engagement and empowerment. Consistency refers to core values, agreement, coordination, and internal integration. Adaptability captures the ability to respond to external demands through flexibility and innovation. Mission represents a clear purpose and long-term direction that guides strategy and decisions. These dimensions offer a comprehensive framework for understanding how culture influences business performance, including fraud prevention in financial service companies.

Employee Motivation

Employee motivation is a central topic in organizational behavior and is shaped by psychological, social, and economic factors. Recent theories include Self-Determination Theory, Expectancy Theory, Equity Theory, Goal-Setting Theory, and Psychological Capital (PsyCap) (Hite, 2015; Rosen, 2023). These frameworks commonly emphasize intrinsic motivation, extrinsic motivation, and competence as core drivers of motivated behavior (Gerhart & Fang, 2015; Mekler et al., 2017; Ryan & Deci, 2020).

This study measures employee motivation in financial service companies using three constructs: intrinsic motivation, extrinsic motivation, and competence. Intrinsic motivation reflects an internal desire to perform work for personal satisfaction and meaning. Extrinsic motivation involves rewards, recognition, and financial incentives that encourage task completion. Competence refers to employees' confidence in their ability to perform tasks effectively. These three dimensions provide a comprehensive view of employee motivation in financial service settings and support efforts to enhance performance and reduce fraudulent behavior.

Research Framework and Hypotheses Development

The impact of spiritual leadership on fraud prevention in Indonesian financial service companies can be explained through several grand theories. Fraud Triangle Theory states that fraud appears when pressure, opportunity, and rationalization align. Spiritual leadership weakens these elements by building a culture of integrity that limits opportunity and reduces rationalization. General Deterrence Theory stresses the need for strong controls and firm consequences. Spiritual leadership supports this by shaping an ethical climate that reinforces accountability. Routine Activity Theory argues that fraud decreases when capable guardianship is present. A vigilant culture created through spiritual leadership acts as this guardian and discourages offenders. Employee motivation moderates these effects. Motivated employees who internalize spiritual and ethical values have a lower tendency to engage in fraud and align their actions with organizational expectations. These theories jointly explain how spiritual leadership, mediated by organizational culture and moderated by employee motivation, strengthens fraud prevention in financial service companies. The research framework is presented in Figure 1.

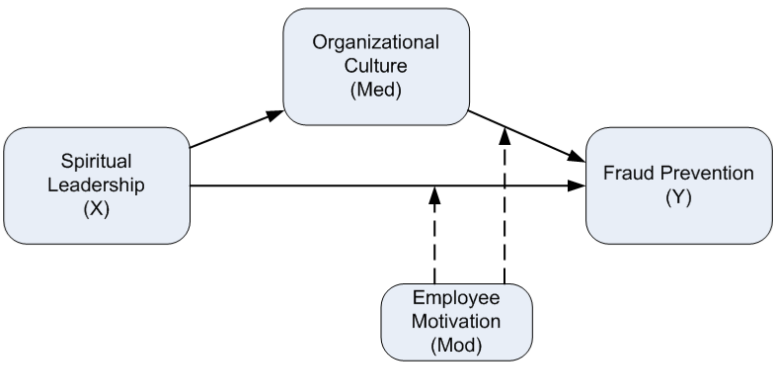

Figure 1. Research Framework

We proposed the hypotheses as follow:
H1: Spiritual leadership positively influences organizational culture.
H2: Spiritual leadership positively influences fraud prevention.
H3: Organizational culture positively influences fraud prevention.

H4: Organizational culture mediates the relationship between spiritual leadership and fraud prevention.
H5: Employee motivation positively influences fraud prevention.
H6: Employee motivation moderates the relationship between spiritual leadership and fraud prevention.
H7: Employee motivation moderates the relationship between organizational culture and fraud prevention.

METHODOLOGY

This study employs a quantitative approach to examine the impact of spiritual leadership on fraud prevention in financial service companies in Indonesia, with a focus on the mediating role of organizational culture and the moderating effect of employee motivation. A quantitative approach is chosen because it allows for the systematic collection and analysis of numerical data, facilitating the testing of hypotheses and the determination of relationships between variables through statistical methods. By using structured questionnaires to gather data, we can quantify the constructs of spiritual leadership, organizational culture, employee motivation, and fraud prevention, providing a robust framework for analysis. The questionnaire (5-scaled) included items related to spiritual leadership, organizational culture, employee motivation, and fraud prevention, ensuring comprehensive coverage of the research variables. Each variable (spiritual leadership, fraud prevention, organizational culture, and employee motivation) was measured by several relevant construct based on the theories, as outlined in Table 1.

Table 1. Measurement of Variables

Variables	Dimensions	Item No.
	Vision (X1)	1 – 3
	Hope/Faith (X2)	4 – 6
Spiritual Leadership (X)	Altruistic Love (X3)	7 – 9
	Meaning/Calling (X4)	10 – 12
	Membership (X5)	13 - 15
	Involvement (Med1)	1 – 3
Organizational Culture (Med)	Consistency (Med2)	4 – 6
	Adaptability (Med3)	7 – 9
	Mission (Med4)	10 – 12
	Intrinsic Motivation (Mod1)	1 – 3
Employee Motivation (Mod)	Extrinsic Motivation (Mod2)	4 – 6
	Competence (Mod3)	7 – 9
	Internal Control Effectiveness (Y1)	1 – 3
	Fraud Detection Mechanisms (Y2)	4 – 6
	Employee Training and Awareness (Y3)	7 – 9
Fraud Prevention (Y)	Corporate Governance and Ethical Culture	10 – 12
	(Y4)	13 – 15
	Regulatory Compliance (Y5)	16 – 18
	Incident Response and Investigation (Y6)	19 - 21
	Technological Safeguards (Y7)	

Notes: Scale = interval.

The target population for this study included all employees working in both banking and non-banking financial service companies across several provinces in Indonesia. Specifically, the study focused on employees from Indonesian Commercial islamic Banks, including BNI, Mandiri, BRI, Muamalat, Nobu, BSI, and Mayapada, as well as BPR (rural banks) and non-banking institutions such as Regional Credit Guarantee companies. The provinces included in the study are Jakarta, West Java, Riau, Central Java, East Java, Yogyakarta, Central Kalimantan, South Kalimantan, and West Kalimantan.

To select the sample, we used convenience sampling, a non-probability sampling technique where participants were selected based on their availability and willingness to participate (Nowiński et al., 2019). This approach was suitable given the practical constraints and the need to gather data efficiently from financial service companies that are ready to participate. The sample size for this study was 220 employees from the financial service companies. These respondents were asked to fill in a structured questionnaire designed to measure the key constructs of the study.

The collected data were analyzed using descriptive statistics and Partial Least Squares (PLS) structural equation modeling to test the proposed hypotheses and examine the relationships between the constructs. PLS is well-suited for exploratory research where the theoretical model may not be fully developed. Since the relationship between spiritual leadership, fraud prevention, organizational culture, and employee motivation is relatively new and under-researched, PLS can provide valuable insights. PLS can handle complex models with multiple constructs, mediators, and moderators (Hair Jr et al., 2014).

RESULTS

In the results section, we present the calculation of descriptive statistics and then we test the proposed hypotheses and examine the relationships between the constructs using PLS. Table 2 presents descriptive statistics for the latent variables measured in the study, including Spiritual Leadership, Organizational Culture, Employee Motivation, and Fraud Prevention. The table provides information on the mean, sample standard deviation (SD), percentage, and corresponding category for each latent variable.

Table 2. Statistics Descriptive

Latent Variables	Mean	SD	Percentage	Category
Spiritual Leadership	3.802	0.592	70.0	High
Organizational Culture	3.793	0.563	69.8	High
Employee Motivation	4.016	0.572	75.4	Very High
Fraud Prevention	3.852	0.632	71.3	High

Notes: SD = sample standard deviation
Source: Data Calculation (2025)

The descriptive results indicate that employees perceive the organizational environment as highly supportive of ethical conduct and fraud prevention. Spiritual leadership and organizational culture both register strong evaluations, suggesting that leaders consistently model integrity and that shared norms reinforce ethical expectations across units. Employee motivation emerges as the most elevated construct, reflecting a workforce that feels confident, capable, and psychologically engaged conditions that typically strengthen compliance and reduce susceptibility to unethical behavior. Fraud prevention is also viewed positively, implying that employees recognize the presence of effective controls, monitoring systems, and preventive routines.

Furthermore, PLS was utilized by evaluating measurement and structural models. To evaluate the quality criteria of measurement model, Composite Reliability (CR) is used to measure construct reliability and validity, while Average Variance Extracted (AVE) to measure convergent validity. To test the discriminant validity, Heterotrait-Monotrait Ratio (HTMT) is employed. Table 3 shows the output of measurement model, consisting outer loadings of each manifest variable and the value of CR and AVE.

Table 3. Output of Measurement Model

Construct	Outer Loadings	CR	AVE
X1	0.796	0.899	0.641
X2	0.795		
X3	0.778		
X4	0.795		
X5	0.837		
Med1	0.799	0.867	0.619
Med2	0.804		
Med3	0.769		
Med4	0.774		
Mod1	0.840	0.855	0.663
Mod2	0.743		
Mod3	0.856		
Y1	0.814	0.933	0.667
Y2	0.826		
Y3	0.793		
Y4	0.796		
Y5	0.842		
Y6	0.815		
Y7	0.827		

Source: SmartPLS Output (2024)

The measurement model demonstrates strong reliability and convergent validity across all constructs. Indicator loadings fall within the acceptable to high range, showing that each item contributes meaningfully to its latent variable. Composite reliability values exceed the recommended threshold, confirming internal consistency within each construct. The AVE scores also meet validity standards, indicating that the constructs capture a substantial proportion of variance relative to measurement error. These patterns collectively show that the indicators for spiritual leadership, organizational culture, employee motivation, and fraud prevention form stable and empirically robust measurement blocks, suitable for subsequent structural modeling.

Table 4. Discriminant Validity

Construct	Med	Mod	X*Mod	Med*Mod	X
Med					
Mod	0.493				
X*Mod	0.281	0.111			
Med*Mod	0.211	0.063	0.753		
X	0.825	0.575	0.377	0.282	
Y	0.847	0.653	0.308	0.254	0.832

Source: SmartPLS Output (2024)

It is evident that the HTMT values are below 0.90 (or more conservatively, 0.85) suggesting the establishment of discriminant validity. We present the research presentation as in Figure 2.

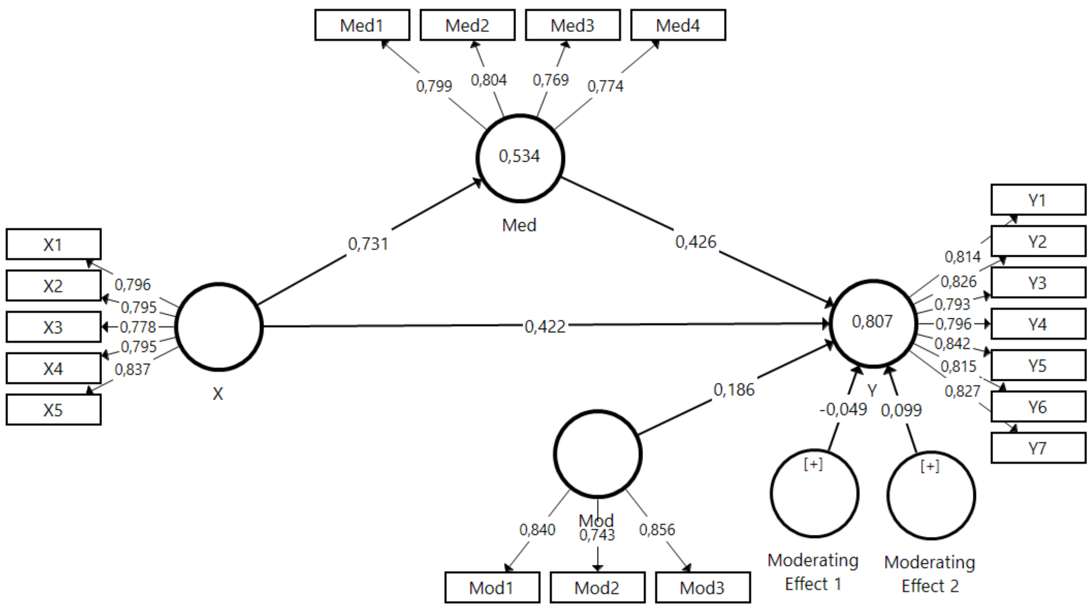

Figure 2. Overall Model

Figure 2 shows that the extended model, which includes mediation and moderation, explains the outcome far better than the simple direct model. This indicates that fraud prevention is shaped by indirect and conditional effects, not only by the primary predictor. Bootstrapping was then used to confirm the significance of all structural paths, as reported in Table 5.

Table 5. Results of Hypotheses Testing

Path	Effect	*t*-value	*p*-value	Decision
Spiritual Leadership → Org. Culture	0.731	21.34	0.000	Accepted
Spiritual Leadership → Fraud Prevent.	0.422	8.152	0.000	Accepted
Org. Culture → Fraud Prevention	0.426	8.454	0.000	Accepted
Spiritual Leadrshp. → Org. Cultr. → Fraud prev.	0.311	8.948	0.000	Accepted
Employee Motivation → Fraud Prevention	0.186	5.297	0.000	Accepted
Spiritual Leadrshp × Emply. Motivt. → Fraud Prevnt.	-0.049	1.131	0.259	Rejected
Org. Culture × Emply. Motivt. → Fraud Prevent.	0.099	2.202	0.028	Accepted

Source: Developed form SmartPLS Outputs

DISCUSSION

The findings demonstrate that spiritual leadership functions as a central mechanism shaping both organizational culture and fraud prevention in Indonesian financial service companies. Its core dimensions—vision, hope/faith, altruistic love, meaning/calling, and membership—operate as reinforcing values that influence employee behavior and organizational climate (Fry, 2003; Fry et al., 2017; Egel & Fry, 2017; Jabeen et al., 2017). Vision provides direction and shared aspirations, while hope and faith cultivate confidence, persistence, and optimism (Fry et al., 2017). Meaning/calling aligns personal values with organizational purpose, strengthening both intrinsic and extrinsic motivation (Jabeen et al., 2017). Membership, which emerges as the strongest indicator (X5), underscores the importance of belonging and community, suggesting that a cohesive and inclusive work environment is foundational to effective spiritual leadership. Although altruistic love (X3) loads more modestly, its theoretical importance remains well established as it promotes empathy, compassion, and trust—elements essential for ethical conduct (Fry, 2003; Abdullah et al., 2014). Strengthening altruistic love may therefore enhance the overall effectiveness of spiritual leadership in practice.

The organizational culture findings reinforce the prominence of consistency (Med2), which reflects shared values, behavioral alignment, and stable expectations. This consistency supports predictability and ethical coherence, which are critical in environments where trust and compliance determine operational integrity. Although adaptability (Med3) shows a lower loading, its relevance is widely acknowledged in dynamic, competitive markets where responsiveness and innovation determine resilience (Dwyer & Azevedo, 2016). Maintaining consistency while strategically enhancing adaptability may therefore help financial organizations respond to emerging fraud risks. In parallel, employee motivation is most strongly shaped by competence (Mod3), indicating that employees' belief in their own capability is essential for sustaining engagement, ethical behavior, and task performance (Gheitani et al., 2018). Extrinsic motivation (Mod2) carries less weight, consistent with research showing that external incentives influence behavior but do not support deep, long-term motivation (Ryan & Deci, 2020). Cultivating competence, autonomy, and meaningful work—rather than relying solely on rewards—can therefore strengthen overall motivation (Furiady & Kurnia, 2015).

Fraud prevention is most strongly represented by regulatory compliance (Y5), confirming that adherence to legal standards and oversight mechanisms is a primary defense against misconduct (Astriana & Adhariani, 2019). While the loading for employee training and awareness (Y3) is lower, its strategic importance remains clear: well-trained and vigilant employees are often the first to detect anomalies (Fajri & Setiany, 2024). Organizations may therefore benefit from reinforcing compliance structures while expanding training and awareness programs to build a comprehensive fraud-prevention framework.

The structural analysis clarifies how these factors interact. Spiritual leadership directly strengthens both organizational culture and fraud prevention, consistent with findings that spiritually grounded leadership enhances ethical behavior, employee engagement, and organizational commitment (Cortellazzo et al., 2019; Göçen & Özğan, 2018; Pio & Lengkong, 2020; Shafique et al., 2018; Fry et al., 2017). Organizational culture also strongly predicts fraud prevention, echoing earlier research demonstrating that ethical norms, transparency, and shared values reduce the likelihood of fraudulent behavior (Astuti et al., 2019; Wahyuningsih et al., 2019). The mediation result confirms that part of spiritual leadership's effectiveness flows through its impact on culture, highlighting how leadership values become embedded in norms, behaviors, and collective identity.

Employee motivation directly enhances fraud prevention and significantly moderates the link between organizational culture and fraud prevention. This indicates that the influence of culture is stronger when employees feel competent, engaged, and motivated. Notably, motivation does not moderate the relationship between spiritual leadership and fraud prevention. This pattern may reflect cultural and organizational realities within Indonesian financial institutions, where day-to-day behavioral expectations shaped by organizational culture carry more weight than broader spiritual leadership values in shaping fraud-related behavior. Leadership practices may also be less directly tied to fraud-control processes, or methodological factors such as measurement or sample composition may influence this relationship. Nonetheless, the evidence suggests that motivated employees amplify the ethical force of organizational culture, making motivation a critical factor in the success of fraud-prevention initiatives.

These findings carry important conceptual and practical implications. The confirmation of organizational culture as a mediator highlights the interconnected pathways through which leadership influences fraud prevention, suggesting a holistic model in which leadership values shape culture, and culture shapes ethical outcomes. The identification of employee motivation as a moderator further reveals the interplay between individual psychological factors and organizational systems. The results critically highlight the need for integrated strategies that develop spiritually grounded leadership, strengthen ethical culture, and enhance employee motivation to mitigate fraud risks in financial service companies.

FURTHER STUDY

This study shows that fraud prevention in Indonesian financial service companies is most effective when spiritual leadership, organizational culture, and employee motivation reinforce one another. Spiritual leadership establishes ethical direction, organizational culture embeds these values into daily practices, and motivated employees strengthen the behavioral foundation needed to deter fraud. The results confirm the mediating role of organizational culture and the moderating effect of employee motivation, demonstrating that ethical leadership alone is insufficient without a supportive cultural environment and an engaged workforce. These findings highlight the need for integrated approaches that connect leadership values, cultural alignment, and employee capability to build stronger ethical systems within financial institutions.

Several limitations warrant attention. The study relies on self-reported perceptions, uses convenience sampling, and focuses on selected institutions and provinces, which may limit generalizability. Future studies should consider longitudinal designs, multi-source data, and probability-based sampling to capture more robust causal insights. Expanding research into cross-cultural or cross-country settings would also clarify how institutional norms influence the leadership–culture–motivation nexus in fraud prevention. Practically, financial service companies should strengthen leadership development grounded in spiritual values, invest in cultural systems that reinforce ethical norms, and enhance motivation through competence-building and meaningful work. These steps can create more resilient fraud-prevention structures and support long-term organizational integrity.

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