THE EFFECT OF LEADERSHIP STYLE, COMPENSATION SUITABILITY, INTERNAL CONTROL SYSTEM AND ORGANIZATIONAL CULTURE ON FRAUD IN PT BANK ABCD

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Abstract: This study aims to examine and analyze the effect of leadership style, internal banking control systems, compensation suitability, and organizational culture for fraud at PT Bank ABCD. This research uses causality research with survey method. The population in this study were all credit staff in PT Bank ABCD, amounting to 57 people. Data collection was carried out with a questionnaire delivered directly by the researcher. The sampling method uses the census method in which the entire population in this study is the research sample. The method of analysis uses multiple linear regression analysis. The results showed that (1) leadership style had no significant effect on fraud, and (2) the banking internal control system, compensation suitability and the organizational ethical culture had a negative effect on fraud at PT Bank ABCD.

Keywords: Leadership Style, Compensation Suitability, Internal Control Systems, Organizational Culture, and Fraud

1. INTRODUCTION

Fraud or often referred to as cheating is an improper act committed by employees and is very detrimental to the company and can damage the good name of the company. Fraud can occur anywhere without distinguishing the status and position of a person in a company, such as a private company, banking or among the government. Many cases of fraud that have occurred in recent years by manipulating data, theft, and many other cases of fraud that have hurt many parties.

Based on the results of the statistical value of Banking Crime Acts (Tipibank) managed by Financial Services Authority (OJK), the types of banking criminal cases that have occurred in 2014 until the third quarter of 2016 are credit cases (55%), engineering records (21%), embezzlement of funds (15 %), fund transfers (5%) and asset procurement (4%). The act of banking irregularities is quite high and almost entirely carried out by the internal parties of the bank itself. To reduce the potential for such irregularities, the prudential principle is required in carrying out its operational activities. So that the sense of public trust to save funds in a bank can be maintained.

According to Karyono (2013) fraud behavior is supported by three elements. The first element in fraud behavior is pressure. Pressure is an action that can lead to internal and external fraud. In this study the researchers propose that a pressure can be caused by the leadership style and the suitability of compensation.

Leadership style is a way that is done by a leader in carrying out his leadership in order to be able to influence others in accordance with what he wants. If a boss's leadership style in leading in a work unit runs well then the possibility of
fraud will be increasingly reduced. This is in line with research (Sudibyo, T. D., 2016) states that leadership style negatively influences fraud.

Compensation suitability is a form of costs that must be incurred by the company in the hope that the company will get a reward in the form of work performance from its employees. However, the better the salary satisfaction received by an employee, the lower the level of fraud. This is in line with research (Joko, 2016) states that the suitability of compensation has a negative effect on fraud. But research (Sari, 2016) states that compensation suitability has no effect on fraud.

The second element in fraud behavior is opportunity. Opportunity is an action that can occur due to a weak internal control system. Internal control system is a step of supervision carried out by the company in order to control the company's activities to minimize the risks that might occur. If the internal control system in a company gets better then the possibility of fraud will decrease. This is in line with research (Pramudita, 2013) that the internal control system has a negative effect on fraud. But research (Softian, 2010) states that the internal control system has a positive effect on fraud.

The third element in fraud behavior is justification. Justification is an act of defense committed by someone due to habitual factors that often occur in an environment. In this study, the researchers propose a justification can be caused by organizational culture in an agency. Organizational culture is a tradition or habit that includes norms and values in a group that can influence one another. If the organizational culture in a bank is dominated by positive activities, the possibility of fraud will decrease. This is in line with research (Joko, 2016) that organizational culture has a negative effect on fraud. But research (Sudibyo, 2016) that organizational culture has a positive effect on fraud.

Banking is a business entity that collects funds from the public in the form of savings and distributes them in the form of credit in order to improve the lives of many people. Each bank carries out the same operational service activities, which collect funds from the public in the form of deposits and channel them back in the form of credit.

The largest bank in terms of providing mortgage loans is PT Bank ABCD with a total of 500 housing units in 2010 to 2019. Therefore, the more mortgage lending to customers conducted by PT Bank ABCD, the tendency for fraud will also be large.

Based on the explanation of the phenomenon above, the researcher is motivated to conduct the research.

2. LITERATURE REVIEW
2.1. Theory of the Triangle Fraud
According to Karyono (2013) about triangle theory, fraud behavior is supported by three elements, namely:
   a. Pressure
      The urge to commit fraud occurs in employees (employee fraud) and by managers (management fraud) and encouragement occurs due to others.
1) Financial pressures; among others in the form of a lot of debt, lifestyle beyond financial capacity (the size of the stake than the pole), greed, and unexpected needs. Bad habits; inter alia addicted to drugs, gambling, and drinking alcohol.

2) Work environment pressure; such as underachievement / performance, low salary and not satisfied with the job.

3) Other pressure; such as pressure from the spouse to have luxury goods.

b. Opportunity
Opportunities arise because of weak internal controls to prevent and detect fraud. Opportunities can also occur due to weak sanctions, and the inability to assess the quality of performance. Besides that, there are several other conditions which are conducive to crime. There are several factors that can increase the opportunity to commit fraud, namely:

1) Failure to bring order to the perpetrators of fraud
2) Limited access to information
3) Ignorance, laziness, and not according to the ability of employees
4) Lack of audit trail.

c. Rationalization
Frauders seeking justification include:
1) The subject assume that what is done is normal / normal for other people to do as well.
2) The subject feels he has contributed greatly to the organization and he should receive more than he has received.
3) The subject considers his good intention is to overcome the problem, later it will be returned.

According to G. Jack Balogna and Robert Lindquist (1995) fraud is intentional fraud generally described as lying, plagiarism, and theft. Fraud can be carried out on customers, creditors, suppliers, bankers, investors, underwriters, and the government. Herujito (2005) states that leadership style is a leadership style adopted by someone in practicing leadership.

According to Sastrohadiwiryo (2003) the suitability of compensation is the compensation for services or remuneration provided by the company to the workers because the workers have contributed energy and thoughts for the progress of the company in order to achieve the goals set.

Understanding the internal control system according to the AICPA (American Institute of Certifield Public Accountant) quoted by Mardi (2011) The Internal Control System covers the organizational structure and all means and actions in a coordinated company with the aim of maintaining the security of company property, checking accuracy and truth accounting information, improve the company's operational efficiency and help maintain management policies that have been set.

According to (Mondy and Noe, 1996) organizational culture is a system of shared values, beliefs and habits in an organization that interact with their formal structures to create norms of behavior.
2.2. **Conceptual Framework**

Based on the background and theoretical basis and a review of previous researchers can be made a conceptual framework that will be examined in Figure 1. The picture shows how the influence of leadership style, compensation suitability, internal control systems and organizational culture on fraud.

![Conceptual Framework](image)

**Figure 1. Conceptual Framework**

2.3. **Hypothesis**

Based on the conceptual framework, the hypotheses of this study are as follows:

- H1: Leadership style has a negative effect on fraud at PT Bank ABCD.
- H2: Compensation suitability has a negative effect on fraud at PT Bank ABCD.
- H3: The internal control system has a negative effect on fraud at PT Bank ABCD.
- H4: Organizational culture has a negative effect on fraud at PT Bank ABCD.

3. **RESEARCH METHODS**

This type of research is a causality study which states whether or not there is a causal relationship between independent variables. In this case the variables studied were leadership style, compensation suitability, internal control systems and the culture of conventional banking organizations for fraud.

In the case of efforts to obtain and collect data needed in this study, questionnaires were distributed. The sample used for distributing questionnaires was PT Bank ABCD because all of the conventional banking operational activities are both companies that offer banking services such as deposits and loans PT Bank ABCD is the bank that offers the most housing mortgage loans. Therefore, the increasing number of KPR loans to customers made by PT Bank ABCD, the tendency for fraud will also be large. Questionnaires will be distributed from May 2019 to completion. The population of this study is all credit staff in PT Bank ABCD as many as 87 respondents so that the sample uses a saturated sample (census). Of the 87 credit staff at PT Bank ABCD, 30 staff will be respondents for...
testing the validity and reliability of the research questionnaire and 57 other staff will be respondents for research analysis.

Data analysis method used in this study uses multiple linear regression analysis using the SPSS application. The method of processing and analyzing data in this study uses multiple linear regression statistical techniques and for the validity of the results of the analysis it is first performed a test of the quality of the research instrument, a test for normality of the data, a classic assumption test and a test of the research hypothesis. Data quality testing needs to be done because the data in this study are primary data. Types of data quality testing in the form of validity and reliability tests. The classic assumption test is the assumption underlying the regression analysis with the aim of measuring the association or attachment between independent variables. There are three tests related to the classic assumption test, namely the normality test data, multicollinearity test, and heterokedasticity test.

Hypothesis testing is done with a precision test to find out how big is the relationship between the independent variable and the dependent variable. Testing the hypothesis in this study using the F-Test, t-Test, and the coefficient of determination \( R^2 \) test.

4. RESULTS AND DISCUSSION

4.1. RESULTS

The data in this study were collected by distributing 57 questionnaires to PT Bank ABCD credit staff who were the research locus. The questionnaires returned after being distributed were 53 questionnaires or the responsive rate was 92.98 percent while 3 questionnaires (7.02%) did not return. So that the total sample analysed further there are as many as 53 samples.

Description of Leadership Style

Based on data obtained from respondents, it can be seen that the percentage of the total score of respondents' responses obtained from statements that make up the leadership style variable is 917 with a mean score of 3.47 included in the category of “mostly applied”. Each statement that forms the leadership style variable, in statement X13 shows that the mean score obtained is 3.45 included in the category of “mostly applied” which means that the majority of respondents' answers are quite amenable if the leader likes to accept the suggestions, opinions and criticisms of his subordinates. In the X14 statement the mean score obtained by 3.55 belongs to the category of “mostly applied” which means that the majority of respondents’ answers are quite agreeable if the leader tries to prioritize cooperation and teamwork in the effort to achieve goals.

Furthermore, the statement X15 mean score obtained by 3.43 belongs to the category of “mostly applied” which means that the majority of respondents' answers are quite agreeable if the leadership always tries to foster a sense of kinship, unity and solidarity. In the X16 statement the mean score obtained by 3.55 belongs to the category of "mostly not applied" which means that the majority of respondents' answers are quite agreeable if the leader always gives encouragement, enthusiasm and motivation to all members. In the X17 statement the mean score obtained by
3.43 belongs to the category of "mostly applied" which means that the majority of respondents' answers are quite amenable if the leader gives freedom to his subordinates to work effectively.

**Description of Compensation Suitability**

Based on data obtained from respondents, it can be seen that the percentage of the total score of respondents' responses obtained from statements that make up the compensation suitability variable is 1,079 with a mean score of 4.07 included in the "mostly applied" category. Each statement that forms the compensation suitability variable, in statement X21 shows that the mean score obtained of 4.00 falls into the category of "mostly applied" which means that the majority of respondents agree if the reward is given in financial form such as bonuses on work performance has been done by workers.

In the X22 statement the mean score obtained at 4.08 falls into the "fully implemented" category which means that the majority of respondents agreed that every employee who excels will get a certificate with the title of best worker. Furthermore, the statement X23 mean score obtained by 4.02 falls into the category of "mostly applied" which means that the majority of respondents agree if promotion / promotion is given on the basis of work performance that has been achieved by workers. In the X24 statement the mean score obtained by 4.04 falls into the category of "mostly applied" which means that the majority of respondents' answers agree if every worker gets health benefits and social security.

In the X25 statement the mean score obtained at 4.21 falls into the "fully implemented" category which means that the majority of respondents agree that if every best worker who succeeds in reaching the manager level will get facilities such as cars and other facilities.

**Description of the Internal Control System**

Based on data obtained from respondents, it can be seen that the percentage of the total score of respondents' responses obtained from the statements that make up the internal control system variable is 1,128 with a mean score of 4.26 included in the "fully applied" category. Each statement that forms the internal control system variable, in statement X31 shows that the mean score obtained of 4.11 is included in the category of "mostly applied" which means that the majority of respondents' answers agree if there is a system of authority and approval made on the system approval by using a personal user and password.

In the X32 statement the mean score obtained at 4.21 falls into the "fully implemented" category which means that the majority of respondents' answers agree if each worker has their respective duties and responsibilities. Furthermore, the statement X33 mean score obtained by 4.30 is included in the category of "fully applied" which means that the majority of respondents' answers agree if the maintenance and maintenance of asset activities are always monitored by the head of the work unit.

In the X34 statement the mean score obtained at 4.38 falls into the "fully implemented" category, which means that the majority of respondents' answers agree if there is always monitoring of the amount of assets contained in the work
unit. In the X35 statement the mean score obtained by 4.28 falls into the "fully implemented" category which means that the majority of respondents' answers agree if every month the auditing team visits the work unit.

**Description of Organizational Culture**

Based on data obtained from respondents, it can be seen that the percentage of the total score of respondents' responses obtained from statements that make up the organizational culture variable is 1,060 with a mean score of 4.00 included in the "mostly applied" category. Each statement that forms the organizational culture variable, in statement X41 shows that the mean score obtained is 3.87 included in the category of "mostly applied" which means that the majority of respondents' answers are quite agreeable if there is a sense of openness and mutual respect between leaders and subordinate.

In the X42 statement the mean score obtained by 4.23 belongs to the category of "fully implemented" which means that the majority of respondents' answers agree if the leadership and employees are always present on time at the office. Furthermore, the statement X43 mean score obtained by 4.28 belongs to the category of "fully applied" which means that the majority of respondents' answers agree if every worker is required to be creative in doing every job.

In the X44 statement the mean score obtained by 3.62 falls into the category of "mostly applied" which means that the majority of respondents' answers are quite agreeable that each worker works professionally in accordance with their respective duties. In statement number 5 the mean score obtained at 4.00 falls into the category of "mostly applied" which means that the majority of respondents' answers agree that each worker performs his duties with a sense of enthusiasm and unyielding.

**Description of Fraud**

Based on data obtained from respondents, it can be seen that the percentage of the total score of respondents' responses obtained from statements that make up the fraud variable is 500 with a mean score of 1.57 included in the category of "mostly not implemented". Each statement that forms a variable of fraud, in statement Y1 shows that the mean score obtained by 1.55 falls into the category of "mostly not implemented" which means that the majority of respondents' answers tend to disagree if there are employees who have arrears on credit card bills so often visited by the collector's dept.

In the Y2 statement the mean score obtained by 1.53 falls into the category of "mostly not applied" which means that the majority of respondents' answers tend to disagree if the salary received by the worker is very low. Furthermore, the Y3 statement of the mean score obtained by 1.43 belongs to the category of "mostly not implemented" which means that the majority of respondents' answers tend to disagree if the auditor team rarely visits the audit.

In the Y4 statement the mean score obtained by 1.55 falls into the category of "mostly not applied" which means that the majority of respondents' answers tend to disagree if there are employees providing fictitious credit loans. In the Y5 statement the mean score obtained by 1.72 belongs to the category of "not fully implemented" which means that the majority of respondents' answers tend to
disagree if there are workers who often share passwords at work. In the Y6 statement the mean score obtained by 1.66 falls into the category of "not fully implemented" which means that the majority of respondents’ answers tend to disagree if some workers use office cash for personal gain.

4.2. DISCUSSION
The Effect of Leadership Style on Fraud
The results of the regression analysis showed that the leadership style did not significantly influence fraud, so the first hypothesis that the leadership style had a negative effect on fraud at PT Bank ABCD was not supported. These findings are different from the research of Joko (2017) and Sudibyo (2016) that leadership style has a negative and significant effect on fraud.

Leadership style is a way taken by someone in order to practice their leadership (Herujito, 2005). Good leadership is needed in smoothing banking operations. The better the leadership style of an employer in a bank, the better the performance of subordinates is expected to carry out their duties. Improved performance of subordinates will reduce fraud in banking activities. But the results of this study show different things. It could be that the leadership style at PT Bank ABCD is good but does not yet have a significant role in fraud. This was confirmed by the results of the previous descriptive analysis that overall respondents’ answers to the leadership style variable questions showed a tendency to agree that the leadership style at PT Bank ABCD, in general the leader was happy to accept suggestions, opinions and criticisms from subordinates; leaders can build teamwork at work; the leader can build a family atmosphere in the team; leaders are able to motivate subordinates.

This good leader also gives a good image in the eyes of his employees and is also respected and valued by his employees. In addition, the application of leadership styles that are appropriate to the character of staff, jobs, and existing conditions can make a major contribution to improving staff performance and have an effect on reducing the likelihood of fraud.

The Effects of Compensation Suitability on Fraud
Regression analysis results show that the compensation suitability has a negative and significant effect on fraud, so the first hypothesis that the compensation suitability has a negative effect on fraud at PT Bank ABCD is supported. This finding is in line with Pramudita's (2013) research and Sulastri and Binsar's (2014) research that compensation suitability has a negative effect on fraud.

Compensation suitability system that has been largely implemented at PT Bank ABCD is a bonus system according to staff work performance, the existence of special certificates for the best workers, promotion of positions to staff who excel and qualify, the existence of medical benefits for staff, as well as additional facilities for employees staff who have reached the manager level. High compensation on an employee has the implication that the organization gets the maximum benefit and benefits from the employee concerned because the amount of compensation is largely determined by the high / low productivity of the
employee concerned. The more employees who are given high compensation means the more employees with high achievements. The number of high-achieving employees will reduce the cost of work for unnecessary work (caused by less efficient and effective work). Thus the provision of compensation can make the use of HR more efficiently and more effectively.

Good management is an important indicator in the compensation system. Good company management is also related to HR management where the key points are also related to the compensation, bonus and promotion systems as discussed earlier. Another important point related to a good corporate management system is the recruitment system, punishment system, and the demotion system. The implementation of a good management system will have an impact on the performance of the company and its staff so that it will have an effect on the smaller acts of fraud by these staff.

**The Effect of Internal Control Systems on Fraud**

The results of the regression analysis showed that the internal control system had a negative and significant effect on fraud, so the first hypothesis that the internal control system had a negative effect on fraud at PT Bank ABCD was supported. This finding is in line with Sari's (2016) research which concluded that the internal control system had a negative effect on fraud but was different from Softian's (2010) study which concluded that the internal control system had a positive effect on fraud.

The internal control system, which has largely been implemented at PT Bank ABCD, includes a system of authority and approval using a user and password; the duties and responsibilities of each staff; there are routine monitoring and routine maintenance of assets; as well as regular visits from auditors.

The large amount of information about cases of fraud or fraud in a company environment involving many parties is an illustration of how fraud has reached an alarming level. This condition is indeed difficult if these cases involve outsiders and individuals from within an organization. One of the causes is the weak internal control system of an organization. In management, evaluation and control are important components to ensure the goals to be achieved by the organization are well implemented. Evaluation and control can be carried out by management called internal control.

Detection of fraud can be seen from good control. Fraud can be detected by applying an effective accounting system and recognizing the forms or variations of various anomalies that occur from standard practice. Management and all employees must be alert to general signs of possible fraud. In addition, management is expected to create and promote an ethical work culture by being a role model for employees. Therefore, management itself must always act ethically and procedurally. Management also conducts fraud risk assessments in its working areas and implements appropriate controls and ensures that fraud mapping is always carried out and staff are aware of their respective responsibilities in preventing fraud.
The Effects of Organizational Culture on Fraud

The results of the regression analysis showed that organizational culture had a negative and significant effect on fraud, so the first hypothesis that organizational culture had a negative effect on PT Bank ABCD fraud was supported. This finding is in line with the results of Monteiro's (2015) study which found that organizational culture had a negative effect on fraud but was different from the results of Sulastri and Binsar's research (2014) which found that organizational culture had no effect on fraud.

The organizational culture that has been fully implemented at PT Bank ABCD is the openness and respect between superiors and subordinates; attention to work time; creativity at work; professionals in their respective duties; as well as a sense of enthusiasm and unyielding in completing tasks.

Organizational culture is the values adopted in a group or organization. A good cultural climate will create good behavior for everyone in the organization. If in a company cheating is a natural or normal thing to happen. Every person in the company would be inclined to commit fraud because the pageper rationalized the action as a normal or natural action.

5. CONCLUSION AND SUGGESTION

5.1. Conclusion

Based on the results and discussion in the previous chapter, the following conclusions can be concluded:

a. Leadership style does not significantly influence fraud at PT Bank ABCD.

b. Compensation suitability has a negative effect on fraud at PT Bank ABCD.

c. The internal control system has a negative effect on fraud at PT Bank ABCD.

d. Organizational culture has a negative effect on fraud at PT Bank ABCD.

5.2. Suggestions

Based on the conclusions above, suggestions can be made as follows:

a. For Banking

The results of this study indicate that leadership style, compensation suitability, internal control systems and organizational culture have a negative influence on fraud. However, all forms of actions that lead to fraud in banks must still be monitored and highlighted by optimizing the role of the leadership, welfare of staff, internal control and the internalization of organizational culture.

b. For Further Research

1) For further research can add other variables that can enrich research information. In addition, this study is limited to the direct effect of the independent variables on the dependent variable. For further research, it can use moderating variables.
2) This study is limited using multiple regression analysis. For further research can use structural equation analysis.

References:


