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THE ROLE OF RECRUITMENT AND SELECTION EFFECT ON PREVENTING FRAUD IN INDUSTRIAL SECTOR

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Abstract

This study aims to analyze the role of recruitment and selection in preventing fraud in the industrial sector, specifically examining how these processes contribute to effectiveness as well as early prevention of the possibility of committing fraud. This study uses a quantitative approach with a survey design involving 200 employees from various industrial companies in Indonesia. Data was collected through a questionnaire that had been tested for validity and reliability. Multiple regression analysis was used to test the research hypothesis. This study contributes to the auditing literature by providing a self-control context for committing fraud. These findings provide practical implications for companies to prioritize the quality of the recruitment and selection process, invest in creating a clean and honest company climate and avoid fraudulent acts. Policy makers in the industrial sector are encouraged to formulate guidelines that support systematic and goal-based recruitment practices to improve overall employee performance, provide comfort and honesty and ethics to employees, and organizational competitiveness. Recruitment has a positive and significant influence on fraud prevention ($\beta = 0.456$, $p < 0.001$), and selection also has a positive and significant influence on fraud prevention ($\beta = 0.523$, $p < 0.001$). These two variables together explain 67.8% of the variation in fraud prevention ($R^2 = 0.678$), indicating that effective recruitment and selection are important determinants of fraud prevention in the industrial sector. Future research should consider a broader range of industry sectors and explore moderator or mediating variables – such as organizational culture or training practices – that may influence the relationship between recruitment, selection, and fraud prevention.

Keywords – Recruitment; Fraud; Industry; Preventive.

I. INTRODUCTION

In the era of globalization and increasingly fierce business competition, companies in the industrial sector face significant challenges in maintaining brand competitiveness. One of the key factors that determines a company's success is the quality of its human resources (HR) (Fitria et al., 2023; Rosyafah & Pudjowati, 2024). Optimal HR performance not only contributes to achieving operational targets but also serves as a foundation for innovation and long-term company growth. Recruitment is an important stage in human resource management which functions to attract and select the right candidates to fill available positions in an organization (Arora et al., 2024; Dwi et al., 2024). This process not only determines the quality of prospective employees who will join but also has a significant impact on individual performance and the organization as a whole. In an era of increasingly tight business competition, companies are required to have competent and high-performing teams in order to survive and develop (Mulyani et al., 2024; Sutrisno et al., 2024). This includes not only technical ability and knowledge in the respective field, but also interpersonal skills, creativity, and the ability to adapt to rapid change. Organizations that are able to integrate various skills and perspectives within their teams will be superior in facing dynamic market challenges (A. Snell & S. Morris, 2014; Farida & Setiawan, 2022; Tarihoran et al., 2023).

Employees with high motivation and strong involvement in their work tend to produce better performance, contribute to innovation, and drive company growth (Hidayati et al., 2024). Therefore, an effective recruitment strategy serves not only to fill vacancies but also to build a positive and productive work culture, which in turn will increase the organization's competitiveness in the global market. As a result, companies must be proactive in designing recruitment processes that focus not only on technical skills but also on the candidate's cultural fit and long-term potential. This will ensure that each team member not only meets current criteria but also has the capacity to grow as the needs and challenges faced by the company change.

Human resource performance is one of the main indicators of organizational success (Widiyanti, 2022). Employees who perform well not only meet set targets but also contribute to innovation, efficiency and a positive work atmosphere. They become agents of change who are able to encourage teams to achieve common goals and create added value for the company (Hoang Dang et al., 2025). In this context, it is important for companies to understand how an effective recruitment process can significantly influence human resource performance. A good recruitment process not only involves selecting candidates based on skills and experience but also considering alignment with organizational values and culture (Ekwoaba et al., 2015; Irianawati et al., 2024). Additionally, effective recruitment can help reduce employee turnover rates, which are often caused by a mismatch between employees and the work environment. The importance of selecting the right candidate is also reflected in increased productivity and job satisfaction (Bans-Akutey et al., 2021; Derati Puspita Sari et al., 2024). Employees who feel valued and fit into their roles tend to be more motivated to give their best, participate in innovative initiatives, and collaborate with colleagues. Therefore, companies must adopt

a comprehensive recruitment approach that focuses not only on technical skills but also on the candidate's growth potential and ability to adapt to change. By understanding the relationship between recruitment and human resource performance, companies can design more effective strategies to attract and retain the best talent. This will create a productive and innovative work environment while ensuring the organization remains competitive in facing the challenges of an ever-evolving industry.

In a competitive industry, having a high-performing team is essential, and the right recruitment can improve human resource performance. Sectors such as health care and education also have an important role in social impact, where effective recruitment not only affects human resource performance but also the quality of services to society. Furthermore, choosing a sector that offers career development opportunities can attract candidates seeking long-term growth while ensuring alignment with the company's vision and mission. By considering these factors, companies can formulate more effective and relevant recruitment strategies, which will ultimately contribute to improved human resource performance and overall organizational success. Good business management will of course provide a reference or illustration of how the business is managed in a transparent manner, with independence, accountability, accountability and fairness so that the financial performance of the business can be achieved in accordance with the previously determined vision and mission of the business. However, the above expectations have not yet been fully realized. This is due to the lack of adequate organizational instruments to create good management and the lack of high commitment from business managers. As a result, various irregularities, fraud, smuggling and corruption emerged (Hermiyetti, 2010).

Data from the Central Statistics Agency (BPS) shows that the employee turnover rate in the Indonesian industrial sector reaches 15-20% per year, which indicates problems in the recruitment and selection process. In addition, the high intensity of cheating, fraud and embezzlement practices that occur in public and private institutions, with all their modes, from the simple to the very sophisticated and complex, should make all parties aware of building a commitment to implementing good governance consistently and broadly at all levels because without awareness and commitment it will result in not achieving good financial performance in hospitals (Hermiyetti, 2010). Those involved in fraudulent acts are driven by the interaction between forces in the individual's personality and the external environment (Tuanakotta, 2010). These forces are classified into three main categories: (1) situational pressure, (2) opportunity and, (3) personal characteristics (integrity). An internal audit is needed to overcome the emergence of fraud within the company. Internal audit is tasked with evaluating a system and procedure that has been prepared and is systematic and implemented correctly through observation, research and examination of the implementation of tasks that have been delegated to each company work unit. One type of evaluation activity carried out by internal audit is fraud prevention and detection. Several types of fraud include corruption, embezzlement, theft, and so on.

II. METHOD

This study uses a quantitative approach with a cross-sectional survey design to analyze the influence of recruitment and selection on fraud prevention. The method applied is exploratory research, using multiple linear regression analysis techniques. The population of this study consists of employees from the industrial sector in Central Java, totaling 450,000 individuals in 2,500 industrial companies. From this population, a sample of 200 respondents was selected from 5 different industrial companies, namely manufacturing, automotive and textile. The sampling technique used was purposive sampling, with the following criteria: employees who have worked for at least 1 year, are recruited through a formal process, and are at staff to supervisor level. The instrument used in this research is a structured questionnaire that uses a 5-point Likert scale, where 1 means "Strongly Disagree" and 5 means "Strongly Agree". Data collection techniques were carried out through several methods, including direct questionnaire surveys, field observations, and documentation studies.



III. RESULTS AND DISCUSSION

This study was conducted in industrial sector companies in Central Java, which includes three main sectors: manufacturing, automotive, and textiles. According to data from the Central Java Statistics Agency (BPS) (Tri Karjono, 2024), the industrial sector contributes approximately 30% to the province's Regional Gross Domestic Product (GDP) and employs millions of workers. The Industrial Sectors Studied: Manufacturing, Automotive, and Textiles. Research on the Central Java industrial sector was chosen because of its role as a major pillar of regional economic growth, the largest provider of employment, and a significant contributor to increasing community income.

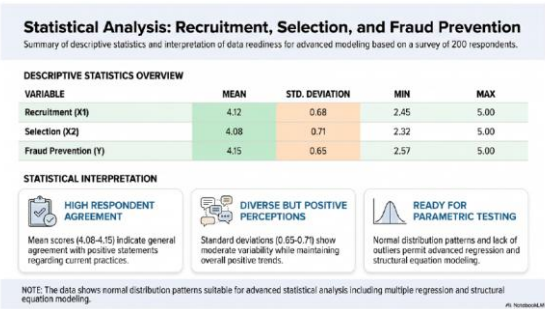
PICTURE 1.PRESENTS THE CHARACTERISTICS OF RESPONDENTS PARTICIPATING IN THIS STUDY

Characteristics	Category	Frequency	Percentage (%)
Gender	Male	118	59.0
	Female	82	41.0
Age	21-30 years	76	38.0
	31-40 years	89	44.5
	41-50 years	35	17.5
	51-60 years	10	5.0
Education Level	High School	65	32.5
	Diploma	58	29.0
	Bachelor's Degree	77	38.5
Work Experience	1-3 years	92	46.0
	4-10 years	68	34.0
	> 10 years	40	20.0
Industry Sector	Manufacturing	78	39.0
	Automotive	64	32.0
	Textile	58	29.0
Total		200	100.0

Note: Percentages may not add up to 100% due to rounding



PICTURE 2. Displays The Descriptive Statistics For All Research Variables.



Interpretation:

1. Recruitment (X_1): The average value of 4.12 indicates that the respondents' perception of the recruitment process is in the good category. A standard deviation of 0.68 indicates relatively small variation in responses.
2. Selection (X_2): The average value of 4.08 indicates a positive perception of the selection process. A standard deviation of 0.71 indicates a good level of consistency.
3. Fraud Prevention (Y): An average value of 4.15 indicates good HR performance in the company studied.

Distribution of Responses Based on Variable Dimensions

The distribution of responses based on variable dimensions shows good categories. The results of the outer loading test to measure convergent validity show that all loading factors are greater than 0.7, and the Average Variance Extracted (AVE) is greater than 0.5, indicating that the instrument used is valid.

Reliability Test Results

The reliability test results show that the Cronbach's Alpha value is greater than 0.7, and Composite Reliability is also greater than 0.7. This shows that the research instrument has good internal consistency.

Fornell-Larcker Criterion Results

In the Fornell-Larcker Criterion analysis, the diagonal values (shown in bold) are higher than the inter-construct correlation values, indicating good discriminant validity among the variables studied.

R-Square Value

The R^2 value of 0.678 indicates that 67.8% of the variation in fraud prevention can be explained by recruitment and selection variables, while 32.2% is explained by other factors outside the model.

Hypothesis Testing Results

The results of hypothesis testing show that the T statistic is greater than 1.96 and the P value is less than 0.05, so the hypothesis is accepted. Apart from that, the results of the simultaneous test (F Test) also show that the hypothesis is accepted.

Discussion

1. Effect of Recruitment on Fraud Prevention (H_1)

The results of the analysis show that recruitment has a positive and significant influence on fraud prevention with a path coefficient $\beta = 0.456$ ($t = 6.821$, $p < 0.05$). This shows that every one unit increase in recruitment effectiveness will increase fraud prevention by 0.456 units. A systematic recruitment process improves the quality of the candidates obtained. A combination of internal and external recruitment sources provides a more diverse talent pool. Careful HR planning facilitates accurate identification of talent needs thereby creating stronger fraud prevention. Recruitment (X_1) in Context For Fraud Prevention purposes, recruitment strategies can be adapted as follows:

- Recruitment Source Screening: Ensure candidates come from sources that have a reputation for high integrity.
- Ethics-Based Employer Branding: Positions the organization as an entity that does not tolerate fraud to attract honest candidates.
- Job Analysis for Sensitive Positions: Conduct in-depth job analysis in positions that have high access to company assets to determine the moral standards required.

2. Effect of Selection on Fraud Prevention (H_2)

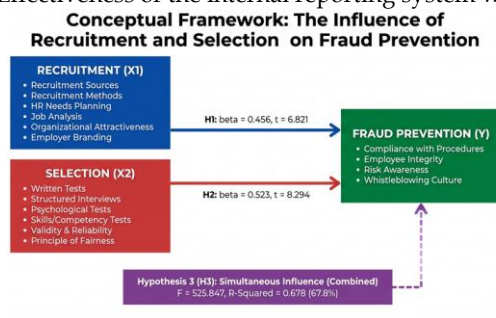
Selection is proven to have a positive and significant influence on fraud prevention with a path coefficient $\beta = 0.523$ ($t = 8.294$, $p < 0.05$). Interestingly, the effect of selection is stronger than that of recruitment, indicating that the candidate selection process is more important in determining deterrence. The structured interview test has the highest predictive validity. The combination of written, psychological and practical tests increases selection accuracy. The principle of fairness in selection increases candidate acceptance and commitment. These results support and are related to the fraud pentagon theory, where fraud is caused by 5 factors, namely opportunity, rationalization, pressure, competence and arrogance. The selection process has a stronger influence than recruitment in these sources. For Fraud Prevention, indicators can be focused on:

- Psychological & Integrity Tests: Using test instruments to identify tendencies for unethical behavior or risk of fraud.
- Structured Interview: Explore the candidate's commitment to the values of honesty through behavioral interviews.
- Competency & Validity Test: Ensures candidates truly have the skills claimed to prevent falsifying qualifications when entering work.

3. Effect of Recruitment and Selection on Fraud Prevention (H_3)

The simultaneous test shows that recruitment and selection together have a significant influence on fraud prevention ($F = 525.847$, $p < 0.05$) with a contribution of 67.8% ($R^2 = 0.678$). The findings in this research in the Industrial Sector are that there were no significant differences found in perceptions of recruitment and selection between the manufacturing, automotive and textile sectors. Employees with >10 years of service give higher ratings for the effectiveness of the recruitment and selection process. Fraud prevention indicators can be seen from:

- Compliance with Procedures: The level of employee compliance with internal controls and SOPs.
- Employee Integrity: Consistency between actions and organizational values.
- Risk Awareness: Employees' understanding of detecting early signs (red flags) of fraud.
- Reporting Culture (Whistleblowing): Effectiveness of the internal reporting system without fear of retribution.



IV. CONCLUSIONS

Based on the comprehensive data analysis and hypothesis testing conducted in this research, several significant findings have emerged that contribute substantially to our understanding of the relationship between recruitment, selection, and Fraud Prevention in the industrial sector. The empirical evidence provides strong support for the theoretical framework and offers valuable insights for both academic studies and practical applications. Testing the first hypothesis reveals that recruitment has a positive and significant influence on fraud prevention in the industrial sector ($\beta_1 = 0.456$, $p < 0.001$). These findings suggest that an effective recruitment process—which includes appropriate recruitment sources, recruitment methods that align with organizational needs, comprehensive HR planning, accurate job analysis, and strong organizational appeal to prospective candidates—contributes significantly to overall fraud prevention. The substantial coefficient indicates that organizations that invest in effective internal controls can expect measurable improvements in workforce quality.

Testing the second hypothesis shows that selection has a positive and significant influence on fraud prevention in the industrial sector ($\beta_2 = 0.523$, $p < 0.001$). These results confirm that a high-quality and well-structured selection process—including testing methods that are relevant and aligned with position requirements, application of validity and reliability principles in selection instruments, and adherence to principles of fairness and transparency throughout the selection process—results in employees with superior levels of performance that align with organizational expectations.

Testing the third hypothesis revealed that simultaneous recruitment and selection had a positive and significant influence on fraud prevention in the industrial sector ($F = 525.847$, $p < 0.001$). These independent variables collectively explain 67.8% of the total variance in fraud prevention, indicating that the recruitment and selection process is an important strategic factor in determining

employee performance within the organization. In particular, selection shows a stronger influence than recruitment on fraud prevention, indicating that the process of selecting and determining the right candidates who are in line with organizational needs is more important and has an impact in determining better employee performance and can minimize fraud.

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