

Embedding Mabadi Khaira Ummah into internal control systems to strengthen governance and performance in Islamic cooperatives: A case study of KSPPS Nusa Umat Sejahtera Semarang

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ABSTRACT

Introduction

Islamic cooperatives have become vital institutions for promoting inclusive finance and member-based economic development. However, their sustainability requires robust governance and reliable internal control systems. Few studies have examined how Islamic ethical values, particularly *Mabadi Khaira Ummah*, can be systematically embedded into internal control frameworks to enhance transparency, accountability, and organizational performance.

Objectives

This study aims to analyze how *Mabadi Khaira Ummah*—truthfulness, trust, justice, cooperation, and steadfastness—are conceptualized, implemented, and operationalized in the internal control system of KSPPS Nusa Umat Sejahtera. It further explores the impact of these values on cooperative governance, fraud prevention, and financial performance.

Method

A qualitative case study approach was employed, focusing on KSPPS Nusa Umat Sejahtera in Semarang, Indonesia. Data were collected through semi-structured interviews, direct observation, and document analysis. Purposive and snowball sampling were used to

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identify respondents, and thematic analysis was applied to examine how ethical values were integrated into organizational practices.

Results

The findings reveal that *Mabadi Khaira Ummah* values are embedded into standard operating procedures, staff training, monitoring processes, and member engagement. Their application has enhanced transparency, strengthened accountability, reduced fraud risks, and supported asset growth. Members perceive the cooperative as both a financial institution and a moral community, reinforcing trust and loyalty.

Implications

This study provides theoretical, practical, and policy implications. It extends governance theory by demonstrating how ethical values reshape accountability as a moral duty. Practically, it offers a replicable model for other Islamic cooperatives. At the policy level, it highlights the need for regulatory frameworks that promote ethics-driven governance.

Originality/Novelty

The study contributes to the literature by empirically showing how *Mabadi Khaira Ummah* principles can be institutionalized within internal control systems, bridging the gap between normative Islamic ethics and operational governance in Sharia-based cooperatives.

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INTRODUCTION

The development of financial cooperatives and microfinance institutions has become an essential component of efforts to promote inclusive economic growth and social equity, particularly in emerging economies. These institutions provide access to capital for marginalized communities that are often excluded from formal banking systems. Their ability to mobilize member resources and extend credit to small-scale entrepreneurs positions them as critical actors in community development. At the same time, their sustainability depends heavily on the strength of governance and accountability frameworks. Studies across contexts underscore that internal control systems (ICS) are indispensable in ensuring that these organizations remain transparent, accountable, and resilient to fraud risks. Research highlights that ICS safeguard institutional assets while nurturing trust among members, thereby strengthening the legitimacy of financial cooperatives and microfinance institutions (Larasati & Tjaraka, 2025; Usman & Sundari, 2024). The increasing recognition of the role

of ICS as both a technical and ethical safeguard situates them at the heart of contemporary debates on cooperative governance and financial sustainability.

In the field of Islamic finance, ethical frameworks and religiously grounded values are integrated directly into the governance and organizational management of institutions. This integration is not merely normative but shapes decision-making structures and operational practices. Islamic work ethics (IWE), for example, emphasize responsibility, transparency, and moral integrity, which directly influence employee behavior and institutional culture. Studies show that IWE promote effort, moral accountability, and integrity in financial management, thereby enhancing both individual performance and organizational outcomes (Aman-Ullah & Mehmood, 2023; Hayati & Caniogo, 2025). Similarly, the institutionalization of Sharia supervisory boards (SSBs) ensures that operations remain aligned with Sharia principles while reinforcing governance standards (Almutairi & Quttainah, 2017). Such arrangements demonstrate how Islamic ethical frameworks function as practical instruments for ensuring transparency, accountability, and socially responsible practices in financial cooperatives (Aliyu et al., 2017; Mutamimah et al., 2022). This convergence of governance and ethics highlights the distinctiveness of Islamic finance while also aligning it with global concerns for sustainable and accountable financial systems.

Despite these promising foundations, Islamic microfinance institutions and Sharia cooperatives face a set of recurring challenges in balancing rapid growth with accountability and effective governance. First, many institutions struggle with initial financing and limited access to capital, creating dependency on narrow funding channels that can compromise sustainability (M. K. Khan et al., 2023). Second, reliance on outdated manual operations restricts efficiency and transparency, heightening risks of fraud and mismanagement (Safitri et al., 2019). Third, governance frameworks often fail to align with market realities, leaving small traders disadvantaged by collateral requirements and systemic inefficiencies (Khasanah, 2021). Moreover, weak regulatory environments in certain jurisdictions exacerbate these vulnerabilities, limiting the effectiveness of governance and accountability frameworks (Uddin & Mohiuddin, 2020). Together, these challenges illustrate the tensions between growth, ethical compliance, and operational sustainability in Islamic financial institutions, underscoring the need for innovative approaches that reinforce accountability while enabling expansion (Abdul Zalim, 2022; Fan et al., 2019; Ghayad, 2008).

The importance of internal control systems in enhancing organizational performance has been consistently recognized in the literature. Well-structured ICS frameworks contribute not only to fraud prevention but also to overall organizational health, as evidenced in both conventional and Islamic finance settings. Kusumo et al. (2022) show that robust ICS serve as effective tools for detecting irregularities in village fund management, thereby promoting transparency and efficiency. Similarly, Mutamimah et al. (2022) emphasize that risk management practices rooted in strong ICS significantly improve the financial performance of Islamic microfinance institutions. By reinforcing accountability, ICS foster member trust and ensure compliance with Sharia principles, thereby enhancing organizational legitimacy (F. Khan & Ullah Jan,

2022; Lastri et al., 2022). At the same time, research has highlighted the role of technological integration in improving ICS effectiveness, enabling real-time monitoring and financial reporting that further strengthen accountability and efficiency (Laallam et al., 2022). These findings point to the multidimensional significance of ICS: they are at once instruments of fraud prevention, governance enhancement, and performance optimization.

Parallel to these insights, scholars have increasingly underscored the necessity of embedding ethical or religious values within governance and control systems. Islamic ethics, when operationalized through internal controls, provide both moral legitimacy and practical guidance for managing cooperative institutions. For instance, Hamzah et al. (2021) and Suandi et al. (2023) demonstrate the positive impact of Islamic work ethics on organizational performance and operational processes, though they note the paucity of empirical studies directly connecting these values to internal control mechanisms. Similarly, while SSBs are shown to improve institutional performance, their direct role in shaping and enforcing ICS remains underexplored (Rahmatika et al., 2024; Rowland et al., 2017). Furthermore, the potential of digital technologies to reinforce ethical internal controls aligned with Islamic principles remains insufficiently examined in the literature, despite evidence of their benefits for accountability and fraud prevention (Lin et al., 2025). These observations collectively highlight the importance of linking Islamic ethical frameworks with ICS to create comprehensive governance models capable of balancing growth, accountability, and Sharia compliance.

A closer review of the literature also reveals persistent research gaps at this intersection. Specifically, few studies provide explicit frameworks for embedding Islamic ethical values into ICS structures. While it is well established that Islamic principles underpin ethical governance (Ghafran & Yasmin, 2020; Kannike & Fahm, 2025; Rafie, 2023), the operationalization of these principles into day-to-day control mechanisms remains vague. Likewise, research on organizational culture shaped by Islamic values indicates positive effects on workplace harmony and performance, yet its implications for ICS effectiveness are still poorly understood (Zulpahmi et al., 2022). This gap reflects a broader need for integrative studies that connect normative Islamic values, formal internal controls, and measurable performance outcomes in cooperative financial institutions.

Given these preceding circumstances, this study aims to conceptualize and analyze the integration of *Mabadi Khaira Ummah* (MKU)—a set of five ethical principles central to Nahdlatul Ulama—into internal control systems within Sharia cooperatives. These principles—truthfulness (*al-shidq*), trust and keeping promises (*al-amanah wa al-wafā bil 'ahd*), justice (*al-'adālah*), mutual cooperation (*al-ta'āwun*), and steadfastness (*al-istiqāmah*)—serve as ethical foundations for Islamic community life. While extensively recognized in theological discourse, their systematic incorporation into organizational governance, particularly in ICS, has not been fully theorized or empirically validated. By embedding MKU values into the control environment and operational procedures of financial cooperatives, this study seeks to demonstrate how ethical frameworks can be translated into practical governance mechanisms that

enhance accountability, transparency, and performance. The novelty of this research lies in bridging the gap between Islamic ethical principles and organizational control structures, thereby offering both theoretical and practical contributions to the fields of Islamic finance, cooperative governance, and ethics-based management.

LITERATURE REVIEW

Internal Control Systems and Organizational Performance

Scholars have long recognized the significant role of internal control systems (ICS) in enhancing organizational performance, particularly within cooperatives, microfinance institutions, and community-based financial organizations. ICS are essential for mitigating risks, preventing fraud, and strengthening accountability structures. Empirical studies affirm that management committees and internal controls exert considerable influence on performance metrics, supporting the stewardship theory's premise that responsible governance enhances efficiency and trust (Otaiche et al., 2023). By ensuring effective oversight, ICS contribute not only to financial sustainability but also to member confidence, thereby reinforcing organizational legitimacy in environments where trust is indispensable for cooperative success.

The ethical dimension of ICS has also attracted scholarly attention. Mercader et al. (2021) show that ethical leadership, teamwork, and effective communication are positively correlated with productivity and overall performance. Organizations that embed ethical considerations into their internal controls benefit from improved employee conduct and stakeholder trust. Similarly, Nalukenge et al. (2018) emphasize that compliance with international financial reporting standards in microfinance institutions is facilitated by robust internal controls. This ensures that institutions meet regulatory demands while also improving transparency, both of which are crucial for long-term sustainability.

Fraud prevention remains a central concern in discussions of ICS. Špiler et al. (2024) demonstrate that strong control frameworks safeguard against fraud while promoting accountability in public financial management. Mandal & Amilan S. (2025) extend this perspective by highlighting the importance of whistleblowing mechanisms and ethical leadership as integral elements of fraud prevention. Together, these findings indicate that ICS should be viewed not merely as technical mechanisms but as holistic frameworks that integrate ethical, operational, and governance dimensions to secure organizational performance in cooperative and microfinance contexts.

Islamic Ethical Principles in Governance and Accountability

Islamic ethical principles—including truthfulness, trust, justice, cooperation, and steadfastness—are deeply rooted in Islamic tradition and function as normative foundations for governance in financial institutions. Kakembo et al. (2021) show how justice and cooperation guide the design of governance structures in Islamic microfinance, ensuring that they remain responsive to community needs. Similarly, Azam et al. (2019) argue that adherence to Shari'ah compliance significantly influences

corporate social responsibility, positioning ethics as central to accountability and integrity in Islamic banking operations.

The application of Islamic ethics is not limited to financial operations but extends into broader professional practices. Lubis et al. (2025) demonstrate how integrating ethical principles into notarial practice enhances integrity and accountability, underscoring the universality of these values. Within financial institutions, ethical leadership informed by Islamic values has been shown to improve employee performance and commitment (Abdelwahed et al., 2025; Hakimi, 2025; Syarkani, 2025). Such leadership promotes a governance culture in which accountability mechanisms are actively enforced, thereby ensuring organizational integrity. These findings collectively affirm the centrality of Islamic ethics in shaping effective governance frameworks.

Further evidence highlights the comparative advantages of Islamic governance models. ALHaija et al. (2024) reveal that Islamic banks in the GCC region maintain stronger ethical standards than conventional banks, largely due to governance structures shaped by Islamic ethics. Chaudhary et al. (2023) similarly find that paternalistic leadership grounded in Islamic work ethics fosters shared responsibility and accountability among employees. Husaeni & Jayengsari (2020) emphasize that governance informed by Islamic values can significantly reduce corruption risks. Collectively, these studies suggest that embedding Islamic ethical principles into governance frameworks enhances transparency, accountability, and resilience.

Effectiveness of Internal Controls in Fraud Prevention and Transparency

The empirical literature consistently affirms that ICS are critical tools for fraud prevention and transparency in cooperatives and Islamic microfinance institutions. Kusumo et al. (2022) provide evidence from village fund management, showing that comprehensive ICS enable early detection of irregularities and reduce opportunities for fraud. Haruddin et al. (2021) extend these findings by noting that weak internal control environments are common precursors to fraud, reinforcing the necessity of comprehensive governance structures. Wahyuni-TD et al. (2021) confirm this link in zakat institutions, where effective ICS not only ensure Shari'ah compliance but also enhance accountability and transparency.

Additional studies underscore the importance of regulatory environments and auditing practices. Bijman et al. (2014) show that improvements in internal governance within agricultural cooperatives in Europe have bolstered transparency and trust. Similarly, Alzoubi (2025) argues that forensic accounting strengthens the reliability of internal controls, while Kamaliah et al. (2018) highlight the value of continuous monitoring for preventing fraud. In Islamic microfinance, Mutamimah et al. (2022) emphasize the dual role of ICS in ensuring compliance and enhancing market competitiveness, indicating that internal controls serve both protective and strategic functions.

The integration of ethical considerations into ICS further strengthens their effectiveness. Shamsudheen et al. (2021) illustrate that embedding ethical values into

internal control systems improves transparency and builds stakeholder confidence. This cultural dimension of ICS is particularly important for Islamic finance, where adherence to ethical norms enhances legitimacy and fosters trust-based relationships with stakeholders. Collectively, these studies demonstrate that ICS are indispensable not only for operational stability but also for sustaining ethical standards and public trust in cooperative financial systems.

Integration of Religious Values into Control Frameworks

Recent scholarship has focused on how Islamic ethical values, including Islamic work ethics and *Mabadi Khaira Ummah*, can be integrated into governance systems and internal controls. Shamsudheen et al. (2021) show that embedding Islamic ethics into governance enhances trust and accountability in banking institutions. Meskovic et al. (2024) further argue that values such as justice and cooperation positively influence social performance by aligning governance structures with stakeholder expectations. These findings suggest that religiously grounded values play both an ethical and practical role in shaping governance frameworks.

Practical applications of this integration have also been explored. Puspitasari et al. (2024) propose a corporate governance model for Islamic property developers that incorporates Islamic principles to achieve both economic and social objectives. Similarly, Asutay (2025) advances the concept of an Islamic moral economy that embeds substantive morality into financial practices, thereby humanizing Islamic finance. Ibrahim et al. (2012) emphasize that Shari'ah-compliant governance mechanisms in real estate financing enhance transparency and accountability, suggesting broader applications across sectors. These studies underscore that embedding Islamic values within governance ensures both compliance and community welfare.

The integration of Islamic principles into internal control frameworks also strengthens auditing and risk management practices. Previous studies (Alsughayer, 2021; Rifai & Mardijuwono, 2020; Tanbour et al., 2025) demonstrate that values of honesty and justice improve internal audit processes, reducing opportunities for misconduct. Other studies (Boudawara et al., 2023; Jan et al., 2021; Wicaksono et al., 2023) highlight how aligning corporate governance with Shari'ah-based corporate social responsibility enhances sustainability in Islamic finance. Collectively, these studies affirm that embedding Islamic ethics into governance and ICS provides not only moral legitimacy but also operational benefits that enhance performance and stakeholder trust.

Research Gap and the Significance of the Study

Despite the growing body of literature on internal control systems and Islamic finance, critical research gaps remain. Existing studies frequently establish the theoretical relevance of Islamic ethical principles but provide limited empirical evidence on their systematic integration into internal control frameworks (Alzoubi, 2025; Grassa et al., 2025). Much of the research emphasizes financial performance while neglecting the

cultural and ethical dimensions that shape governance effectiveness (Azam et al., 2019; Hassan et al., 2025). Furthermore, the role of Shari'ah supervisory boards in strengthening accountability and preventing misconduct remains inconsistently addressed (Anisykurillah et al., 2020). The lack of longitudinal studies compounds these limitations, as few works assess the long-term impact of embedding ethics into governance (Wulandari & Kassim, 2016).

This study is significant because it addresses these gaps by explicitly examining how *Mabadi Khaira Ummah*—truthfulness, trust, justice, cooperation, and steadfastness—can be embedded into internal control systems to enhance cooperative performance. By linking ethical principles with governance mechanisms, the research contributes to bridging normative values and operational practices in Islamic finance (Mutamimah et al., 2022; Puspitasari et al., 2024). Such integration not only strengthens fraud prevention and transparency but also advances a culturally grounded model of accountability and sustainability. The findings thus provide both theoretical innovation and practical guidance for Islamic financial institutions seeking to balance growth, compliance, and ethical governance in diverse contexts.

METHOD

Research Design

This study employs a qualitative research design to explore the integration of *Mabadi Khaira Ummah* (MKU) values into the internal control systems of Islamic financial cooperatives. A qualitative approach was selected because the research questions focus on understanding meanings, values, and practices rather than measuring numerical associations. Qualitative research is particularly suitable for capturing complex social and organizational processes (Lim, 2025; Pratt, 2025; Wilhelmy & Köhler, 2022), such as the operationalization of Islamic ethical principles within governance systems. The single-case study design was applied, focusing on the KSPPS Nusa Umat Sejahtera (NUS) cooperative in Semarang. This design enables an in-depth examination of the phenomenon within its real-life context (Annamalah, 2024; Miller et al., 2022), allowing the researcher to analyze interactions between MKU principles and organizational practices comprehensively.

Research Setting and Context

The research site was KSPPS NUS Semarang, one of the largest Sharia cooperatives in Indonesia, known for its extensive membership and significant financial assets. By 2023, the cooperative operated 106 branches across four provinces, serving more than 200,000 members and managing assets valued at approximately Rp 1.4 trillion. This rapid growth presents both opportunities and challenges in maintaining effective governance, transparency, and accountability. The cooperative was chosen as the case study because it embodies the dynamics of Islamic finance in practice: strong member-based growth, reliance on Sharia principles, and a need for effective internal control systems that balance compliance and performance. The organizational culture

of NUS, rooted in Nahdlatul Ulama traditions, provides a fertile ground for embedding MKU values into governance mechanisms.

Research Subject and Object

The research subject consisted of the organizational stakeholders of KSPPS NUS, including board members, managers, supervisors, and long-tenured cooperative members. These individuals were purposively selected because of their direct involvement in governance and operational processes. The object of the study was the internal control system of the cooperative, particularly its design, implementation, and perceived effectiveness in improving performance. By analyzing the role of MKU principles—truthfulness, trust, justice, cooperation, and steadfastness—within the cooperative's internal control mechanisms, the research sought to understand how ethical values are institutionalized into operational structures and what implications this integration holds for organizational performance.

Sampling Strategy

The study used purposive sampling to identify initial participants, focusing on individuals with substantial knowledge of the cooperative's governance and internal control systems. Snowball sampling was subsequently employed, whereby initial respondents recommended other relevant stakeholders for participation. This approach ensured the inclusion of diverse perspectives from supervisory boards, management, auditors, and cooperative members. Sampling continued until thematic saturation was reached—that is, when additional interviews yielded no new insights. This strategy enhanced the depth and credibility of the data by capturing multiple dimensions of how MKU values influence organizational practices.

Data Collection Methods

Data collection involved three complementary techniques: observation, interviews, and documentation. First, direct observation was conducted at the cooperative's headquarters and selected branches. The researcher observed organizational meetings, decision-making processes, and member interactions to capture how MKU values were practiced in real time. Observations also included supervision sessions and audits to evaluate the operationalization of internal control mechanisms.

Second, semi-structured interviews were held with board members, managers, supervisors, and members. The interview guide focused on participants' experiences with governance practices, perceptions of MKU values, and assessments of internal control effectiveness. Interviews allowed participants to elaborate freely while enabling the researcher to probe deeper into emerging themes.

Third, documentation included internal reports, standard operating procedures (SOPs), supervisory reports, and audit records. These documents provided official accounts of governance practices and complemented the data gathered from interviews and observations. Collecting multiple data types allowed for triangulation, thereby strengthening the validity of the findings (Kawar et al., 2024; Stamenkov, 2023).



Data Analysis Procedures

The data analysis followed an iterative process consistent with qualitative research. Transcribed interviews, observation notes, and documents were coded using thematic analysis. The researcher began with open coding to identify recurring themes related to MKU principles, governance, and internal control practices. Next, axial coding was employed to link categories, identifying how specific MKU values influenced different elements of internal controls, such as control environment, risk assessment, and monitoring. Finally, selective coding synthesized these relationships into broader conceptual categories, allowing for the development of a framework that integrates MKU principles into internal control systems. Constant comparison across data sources ensured that findings were coherent and grounded in the evidence ([Al-Eisawi, 2022](#); [Connor et al., 2024](#); [Strauss & Corbin, 1998](#)).

Trustworthiness of the Study

To ensure the credibility, dependability, and confirmability of the findings, several strategies were employed. Credibility was enhanced through data triangulation, which compared information from observations, interviews, and documents. Member checking was also conducted, allowing participants to review summaries of their interviews to confirm accuracy. Dependability was ensured by maintaining an audit trail of research decisions, coding schemes, and methodological adjustments throughout the research process. Confirmability was addressed by practicing reflexivity, where the researcher critically reflected on personal assumptions and their potential influence on data interpretation. Transferability was supported by providing rich descriptions of the research context, enabling readers to judge the applicability of the findings to other Islamic financial institutions ([Lincoln & Guba, 1985](#)).

Ethical Considerations

The study adhered to established ethical standards in qualitative research. Participants were informed about the purpose of the study, the voluntary nature of participation, and their right to withdraw at any time. Informed consent was obtained prior to data collection. To protect confidentiality, pseudonyms were used for participants, and sensitive data were stored securely. Ethical approval was obtained from the relevant institutional review board before the commencement of fieldwork. These measures ensured that the research respected participants' rights and complied with ethical guidelines in social science research.

RESULTS

Profile of KSPPS Nusa Umat Sejahtera Semarang

KSPPS Nusa Umat Sejahtera (NUS) Semarang has developed into one of the most significant Sharia cooperatives in Indonesia. By 2023, the cooperative operated 106 branches across four provinces—Central Java, East Java, West Java, and Lampung—serving more than 200,000 members with total assets exceeding Rp 1.4 trillion. Its rapid expansion reflects the institution's ability to attract and retain members through trust,

ethical grounding, and financial performance. The cooperative provides various products and services, including savings, financing, and welfare-oriented programs. This breadth of activities requires robust governance structures and internal control mechanisms to ensure transparency and accountability. The organizational culture at NUS is strongly influenced by Nahdlatul Ulama traditions, making it fertile ground for embedding *Mabadi Khaira Ummah* (MKU) values into its internal control system.

Table 1

Growth of Branches and Members (2019–2023)

Year	Number of Branches	Number of Members	Total Assets (Rp)
2019	65	232,279	950 billion
2020	78	234,512	1.05 trillion
2021	89	235,321	1.20 trillion
2022	96	235,879	1.30 trillion
2023	106	236,137	1.40 trillion

Source: KSPPS Nusa Umat Sejahtera (NUS) Semarang.

The table demonstrates continuous growth in both institutional capacity and membership. Despite only modest increases in members during the five-year period, asset growth was significant. This indicates improvements in capital mobilization and operational efficiency, further underscoring the need for systematic internal controls supported by ethical values.

Concept of Mabadi Khaira Ummah in Internal Control Systems

The concept of MKU was examined as the ethical foundation embedded within the cooperative's internal control framework. Five values—truthfulness (*al-shidqu*), trust and fulfilling promises (*al-amanah wa al-wafā bil 'ahd*), justice (*al-'adālah*), cooperation (*al-ta'āwun*), and steadfastness (*al-istiqāmah*)—were identified as guiding principles shaping the control environment.

1. *Al-shidqu* (truthfulness) emphasizes accuracy and honesty in financial reporting and member communication. One respondent stated: "*Kejujuran adalah pondasi utama, tanpa itu, anggota tidak akan percaya pada laporan dan keputusan manajemen.*" This highlights the role of transparency in nurturing trust.
2. *Al-amanah wa al-wafā bil 'ahd* (trust and keeping promises) underlines the importance of fulfilling obligations to members and stakeholders. It informs lending practices, repayment structures, and member engagement. As one manager explained: "*Kami menjaga amanah dari anggota, setiap rupiah adalah tanggung jawab yang harus dikembalikan dengan manfaat.*"
3. *Al-'adālah* (justice) ensures fairness in access to services and equitable treatment of all members. This principle requires impartiality in decision-making, particularly in loan approvals and profit-sharing arrangements.
4. *Al-ta'āwun* (mutual cooperation) reflects the cooperative spirit, encouraging collective problem-solving and mutual support. It reinforces collaboration

among staff, supervisors, and members, fostering a participatory governance structure.

5. *Al-istiqāmah* (steadfastness) highlights consistency and commitment in applying rules and principles, even under pressure. Leaders and staff are expected to remain firm in maintaining integrity, resisting temptations of mismanagement or fraud.

Together, these principles provide a moral compass that strengthens the internal control environment, shaping both individual behavior and institutional structures.

Implementation of Mabadi Khaira Ummah in Internal Control Systems

The implementation of MKU within the internal control system of KSPPS NUS is observable across policies, procedures, and monitoring practices.

First, the cooperative has codified MKU values into its Standard Operating Procedures (SOP) and Standard Operating Manuals (SOM). This formalization ensures that daily operations, from loan disbursements to auditing processes, are aligned with ethical principles. Supervisory boards and internal auditors evaluate compliance not only with technical rules but also with MKU values, reinforcing both operational and moral accountability.

Second, training and capacity-building programs emphasize the integration of MKU values into staff responsibilities. New employees undergo orientation sessions highlighting the relevance of truthfulness, trust, fairness, cooperation, and steadfastness in their duties. As expressed by a staff member: *"Nilai-nilai ini bukan hanya teori, tetapi pedoman kerja harian yang selalu ditanamkan."*

Third, the cooperative conducts regular monitoring and evaluation to ensure consistency. Supervisory boards audit financial records, but they also assess behavioral compliance with MKU values. For example, justice is evaluated in terms of equitable treatment of members, while steadfastness is assessed by reviewing adherence to rules during periods of financial stress.

Fourth, the cooperative has institutionalized mechanisms for member participation. Annual meetings provide opportunities for members to raise concerns, demand accountability, and participate in decision-making. This participatory approach strengthens the cooperative's legitimacy and ensures that MKU values are reflected in governance practices.

Impact of Mabadi Khaira Ummah on Cooperative Performance

The findings indicate that integrating MKU values into internal control systems has had a measurable impact on cooperative performance.

At the financial level, asset growth from Rp 950 billion in 2019 to Rp 1.4 trillion in 2023 demonstrates strengthened capital management. Members' savings increased steadily, and the cooperative maintained a healthy liquidity ratio, ensuring financial stability. The consistent asset growth despite modest membership expansion indicates improvements in efficiency and trust in financial stewardship.

At the governance level, MKU values have enhanced transparency and accountability. Supervisory boards report fewer instances of irregularities, and members express increased confidence in financial reporting. The application of *al-shidqu* and *al-amanah* has minimized the risk of fraud while promoting member loyalty.

At the social level, MKU values have reinforced the cooperative's identity as a faith-based institution. Members perceive the cooperative as not only a financial entity but also a moral community. This perception strengthens loyalty and commitment, contributing to sustainable growth. As one member stated: "*Koperasi ini bukan sekadar simpan pinjam, tetapi wadah ibadah bersama.*"

DISCUSSION

Ethical Values and the Effectiveness of Internal Control Systems

The findings of this study demonstrate that embedding *Mabadi Khaira Ummah* (MKU) values—truthfulness, trust, justice, cooperation, and steadfastness—into internal control systems (ICS) substantially strengthens the governance of KSPPS Nusa Umat Sejahtera. Truthfulness enhances transparency in reporting, trust supports accountability in member relations, and justice ensures equitable treatment across operations. Cooperation fosters collaborative problem-solving, while steadfastness secures consistency in compliance and integrity. Together, these principles create a comprehensive framework that extends beyond technical controls to encompass moral and ethical considerations, resulting in a more resilient and trustworthy cooperative governance environment.

Previous studies support these findings. Chaudhary et al. (2023) highlight how Islamic work ethics reinforce organizational commitment, while Topcan et al. (2025) show that employees guided by ethical principles enhance the effectiveness of ICS through moral responsibility. Similarly, Srairi et al. (2022) emphasize that governance in Islamic banks shaped by ethical values improves operational efficiency and risk management. However, Shamsudheen et al. (2023) caution that ethical frameworks often remain inconsistently integrated into practice, pointing to gaps between values and implementation. These complementary and critical perspectives underscore both the strength and the challenges of aligning ethical norms with internal controls.

The theoretical implications are substantial. Integrating MKU into ICS demonstrates how religious values can reshape accountability, shifting it from a legalistic obligation to a moral duty. Practically, it guides cooperatives toward embedding ethics into SOPs, audits, and monitoring practices, improving fraud prevention and member trust. For policymakers, these results highlight the need to design regulatory frameworks that promote not only compliance but also ethical integration, encouraging cooperatives and microfinance institutions to adopt value-based internal controls. This research thereby contributes to expanding normative models of governance in Islamic finance, emphasizing ethics as foundational to effective internal control.



Islamic Ethical Principles and Organizational Performance

This study confirms that MKU principles enhance cooperative performance at multiple levels. Financially, they support efficiency in capital mobilization and asset growth. Organizationally, they improve transparency, accountability, and governance, reinforcing trust between members and management. Socially, they strengthen identity and loyalty by embedding cooperative practices within Islamic ethics. These combined effects show that performance is not solely measured by financial indicators but also by ethical legitimacy and member satisfaction, which are central to the sustainability of Sharia-based institutions.

Existing research supports these outcomes. Hudaefi et al. (2025) argue that incorporating Islamic ethics into financial institutions improves both financial performance and social outcomes. Mercader et al. (2021) find that ethical leadership enhances communication and teamwork, boosting productivity. Aldhaferi & Ahmad (2024) demonstrate that ethical leadership rooted in trust and cooperation raises operational effectiveness. Similarly, Almasradi (2024) and Jafar & Zafar (2025) emphasize that Islamic ethics foster organizational citizenship behavior and transparency. Collectively, these studies align with the present findings, showing that ethical integration strengthens accountability and performance in Islamic organizations.

The implications extend beyond this case. Theoretically, the integration of MKU expands performance assessment frameworks to include ethical and social dimensions. Practically, cooperatives adopting ethical principles can achieve financial sustainability while maintaining trust and legitimacy. At the policy level, regulators should design evaluation systems that reward ethical performance alongside financial metrics. These implications suggest that embedding ethical frameworks in cooperative governance provides a pathway toward holistic performance, one that balances efficiency with accountability and societal well-being.

Governance and Fraud Prevention in Islamic and Conventional Finance

The results of this study indicate that MKU values contribute to minimizing fraud risks within KSPPS NUS. Truthfulness and trust reduce opportunities for misreporting, while steadfastness promotes strict adherence to procedures. Cooperative governance structures incorporating MKU principles strengthen oversight by aligning control activities with ethical obligations. As a result, the cooperative has reported fewer irregularities and higher levels of member confidence, suggesting that ethical integration effectively bolsters fraud prevention and transparency.

Comparative research highlights differences between Islamic and conventional institutions. Srairi et al. (2022) note that governance in Islamic banks emphasizes ethical compliance and social welfare, while conventional institutions often prioritize shareholder value. Meskovic et al. (2024) emphasize the role of Shari'ah supervisory boards in fraud prevention, a mechanism absent in conventional frameworks. Mandal & Amilan S. (2025) highlight whistleblowing systems as key fraud prevention tools in conventional contexts, whereas in Islamic finance whistleblowing is reinforced as a



moral obligation. These differences confirm that while both systems face fraud risks, Islamic institutions integrate ethical values as structural safeguards.

The implications are threefold. Theoretically, these findings support the argument that ethics-based controls offer a stronger foundation for governance than compliance-based systems alone. Practically, Islamic cooperatives can leverage their ethical foundations to enhance fraud resistance without incurring excessive compliance costs. For policymakers, this suggests that conventional systems could learn from Islamic models, adopting ethical frameworks as complementary safeguards. Thus, the findings bridge insights across financial systems, positioning Islamic ethics as a valuable contribution to global governance debates.

Theoretical Integration of Religious Values and Governance Frameworks

This study demonstrates that MKU values, when embedded in governance frameworks, transform internal control systems from procedural tools into ethical mechanisms. By linking values such as justice and steadfastness to governance, accountability is reframed as a moral duty aligned with Islamic teachings. This integration enhances transparency, strengthens trust, and reinforces cooperative identity, illustrating how ethics can serve as the foundation of governance rather than a supplementary feature.

The literature supports these insights. Ayub et al. (2024) emphasize that Shari'ah governance promotes ethical imperatives beyond legal compliance, while Zauro et al. (2020) argue that ethical integration enhances socio-economic justice. Chaudhary et al. (2021) show that leadership grounded in Islamic work ethics strengthens organizational commitment, and Amran et al. (2017) highlight that CSR in Islamic banks is an extension of ethical obligations. Together, these studies confirm the transformative potential of linking ethics and governance, reinforcing the relevance of MKU as an applied framework.

The implications are significant. Theoretically, the findings contribute to the development of normative models of Islamic governance, where accountability is ethical and social as well as financial. Practically, they provide cooperatives with guidance on codifying values into SOPs, auditing, and staff training. For policymakers, the integration of religious values suggests that governance reforms should emphasize ethics as a strategic pillar, promoting transparency, fairness, and sustainability. This positions Islamic ethics not only as cultural resources but also as innovative governance tools relevant in diverse financial contexts.

Gaps, Limitations, and Contributions to Literature

The results of this study reveal that although MKU values have been effectively integrated into the governance of KSPPS NUS, literature on the operationalization of ethical principles in internal controls remains limited. Many studies highlight the importance of Islamic ethics but lack empirical evidence on their systematic incorporation into cooperative practices. This research contributes by demonstrating concretely how MKU principles are codified into SOPs, implemented in daily operations,

and reinforced through monitoring, providing an empirical model of ethical governance.

Scholars acknowledge similar limitations. Shamsudheen et al. (2023) emphasize the need for empirical validation of ethical frameworks, while McNutt (2010) and Rahman et al. (2023) point to fragmentation in ethical governance models. Al Amosh (2024) argues that organizations often adopt ethical practices due to regulatory pressures rather than genuine commitment, while Al-Khayari et al. (2024) highlight the lack of longitudinal studies. These gaps underscore the originality of the present study, which operationalizes MKU within a cooperative context and demonstrates its practical impact.

The implications are clear. Theoretically, this study extends the discourse on Islamic ethics by linking MKU principles with governance and ICS frameworks. Practically, it offers a replicable model for other Islamic cooperatives, showing how values can be systematically embedded into operations. For policymakers, the findings encourage the development of regulations that promote ethics-driven governance, reducing reliance on compliance alone. By addressing identified gaps, this study advances the field of Islamic finance governance and underscores the significance of MKU as both a conceptual and operational framework.

CONCLUSION

This study has demonstrated that integrating *Mabadi Khaira Ummah* (MKU) values—truthfulness, trust, justice, cooperation, and steadfastness—into internal control systems (ICS) strengthens governance and enhances cooperative performance at KSPPS Nusa Umat Sejahtera. By embedding these ethical values into organizational policies, supervisory practices, and member relations, the cooperative has been able to maintain transparency, accountability, and financial stability while fostering loyalty and trust among its members. The findings highlight that ethics and performance are not separate dimensions but interdependent factors in sustaining Islamic financial institutions.

The analysis also shows that MKU principles function as both normative and operational frameworks. They not only reinforce compliance and fraud prevention but also reshape accountability as a moral obligation, creating a governance environment that is both technically sound and ethically legitimate. These results affirm that embedding ethical principles within ICS ensures holistic performance outcomes, balancing financial growth with fairness and social responsibility. The cooperative's success demonstrates the practical benefits of codifying religious values into daily operations, providing a replicable model for other Sharia-based organizations.

The study contributes to the broader literature on Islamic finance and governance by bridging theoretical discourse with empirical evidence. It extends existing scholarship on internal control systems by showing how Islamic ethics can be systematically institutionalized within cooperative governance. Its implications reach beyond the case study, offering practical guidance for cooperatives, theoretical

insights into ethics-based governance, and policy recommendations for regulators. By confirming the strategic role of MKU, the research underscores the significance of ethics as a foundation for accountability and sustainability in Islamic finance.

Limitations of the Study

While this study provides important insights into the integration of MKU values into internal control systems, it is not without limitations. The research employed a single-case study design, focusing exclusively on KSPPS Nusa Umat Sejahtera. Although this approach enabled in-depth analysis, it restricts the generalizability of findings to other Islamic cooperatives or financial institutions. The reliance on qualitative methods, particularly interviews and observations, may also introduce subjectivity and potential bias despite efforts to triangulate data through documentation and member checking. These methodological constraints must be acknowledged when interpreting the results.

Another limitation relates to the temporal scope of the study. The data reflect conditions observed during a specific period and may not capture long-term changes in governance or performance. Furthermore, the study focused primarily on organizational processes and member perspectives, leaving less attention to external factors such as regulatory shifts, technological innovations, or macroeconomic pressures that might influence governance and accountability practices. These contextual dimensions remain important for understanding the broader environment in which Islamic cooperatives operate.

Recommendations for Future Research

Future studies should expand the scope of analysis by employing comparative case studies across multiple Islamic cooperatives or financial institutions. Such an approach would enable researchers to examine whether MKU principles can be systematically applied in diverse contexts and to assess variations in implementation across organizational structures and cultural environments. Quantitative or mixed-method approaches could also complement qualitative findings, providing statistical evidence of the relationship between ethical values, internal controls, and cooperative performance. This would enhance the robustness and generalizability of results.

Additionally, future research should investigate the long-term impacts of embedding ethical principles into internal control systems. Longitudinal studies could reveal how sustained application of MKU values influences financial stability, member trust, and resilience to external shocks. Researchers may also explore the role of technology in strengthening ethics-based internal controls, particularly in digital financial services and fintech-driven cooperatives. By addressing these dimensions, future studies can deepen theoretical understanding and offer practical recommendations for advancing ethics-driven governance in Islamic finance.

Author Contributions

Conceptualization	S.H., W., & N.W.	Resources	S.H., W., & N.W.
Data curation	S.H., W., & N.W.	Software	S.H., W., & N.W.

Formal analysis	S.H., W., & N.W.	Supervision	S.H., W., & N.W.
Funding acquisition	S.H., W., & N.W.	Validation	S.H., W., & N.W.
Investigation	S.H., W., & N.W.	Visualization	S.H., W., & N.W.
Methodology	S.H., W., & N.W.	Writing – original draft	S.H., W., & N.W.
Project administration	S.H., W., & N.W.	Writing – review & editing	S.H., W., & N.W.

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Informed Consent Statement

Informed consent was obtained before respondents filled out the questionnaire for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work the authors used ChatGPT, DeepL, Grammarly, and PaperPal in order to translate from Bahasa Indonesia into American English, and to improve clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and take full responsibility for the content of the published article.

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