

**EXAMINING FACTORS INFLUENCING BEHAVIOURAL  
INTENTION OF MANAGERS IN FRAUDULENT  
FINANCIAL REPORTING: EVIDENCE FROM PAKISTAN**

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**FACULTY OF BUSINESS AND ACCOUNTANCY  
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KUALA LUMPUR**

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INTENTION OF MANAGERS IN FRAUDULENT FINANCIAL  
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**DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF  
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## ABSTRACT

The modern business world is substantially full of risks and challenges that the global crimes and illegal financial activities are growing rapidly. All the stakeholders such as the owners, shareholders, investors, and regulators have raised much concern over increasing number of corporate scandals. The growth of irregular accounting transactions, business scandals, and fraudulent financial reporting has developed a milieu of mistrust among the businesses and their stakeholders while making financial reporting decisions. It is essential to understand the fundamental factors related to unethical financial reporting intentions of corporate managers. This study aims to (1) examine the influence of managers' attitudes towards their behavior intention in fraudulent financial reporting, (2) examine the influence of subjective norms towards managers' behavior intention in fraudulent financial reporting, (3) examine the influence of perceived behavioral control towards managers' behavior intention in fraudulent financial reporting, (4) examine whether religiosity moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting and (5) examine whether perceived organizational support (POS) moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting.

The theoretical root that framed this study is the Theory of Planned Behavior (TPB) which provides for an examination of a respondent's attitudes, subjective norms, and perceived behavioral control in the development of the intention to perform a specific behavior. The population of this study is the managerial positions especially finance and accounting managers who are working in Pakistani public and private companies listed at Karachi

Stock Exchange. The sample from this population developed a suitable representation of experienced and professional managers.

This study applied a quantitative research design to collect data from the respondents. A survey questionnaire was distributed among 400 respondents, out of which 229 complete and usable responses were received. These responses measured the strength of the respondent's favorable or unfavorable opinions concerning TPB's related constructs (three exogenous constructs - attitude, subjective norm, and perceived behavioral control, and the endogenous construct of intention), religiosity, and perceived organizational support.

The partial least squares structural equation modelling (PLS-SEM) technique was applied to examine the proposed research framework by using Smart PLS. This study followed the two-steps analytical approach suggested by Anderson and Gerbing (1988) and Hair et al. (2005). First, a confirmatory factor analysis (CFA) was performed to test the constructs validity in the measurement model. Then structural model was assessed to examine the hypothesized the relationship between variables.

The results suggest that attitude toward behavior, subjective norms, and perceived behavior control have significant influences on the behavioral intention of managers to violate IFRS to meet earnings prediction. In addition, the findings suggest that subjective norm is the strongest predictor of intention. Surprisingly, the moderation effects of religiosity and POS are found to be insignificant. The findings of this research contribute to existing fraudulent financial reporting literature by empirically proving the relationships between the elements that influence the behavioral intention of managers to commit corporate fraud. Thus, this study provides an insight for the top executives to encourage the managers on ethical

decision making that may help alleviate unethical behavior as well as risks of fraud in an organization.

**Keywords:** Theory of Planned Behavior, Fraudulent Financial Reporting, Intention, Religiosity, Perceived Organizational Support

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## ABSTRAK

Dunia perniagaan moden pada dasarnya penuh dengan risiko dan cabaran bahawa jenayah global dan aktiviti kewangan haram berkembang pesat. Semua pihak berkepentingan seperti pemilik, pemegang saham, pelabur, dan pengawal selia telah menimbulkan banyak keprihatinan terhadap peningkatan jumlah skandal korporat. Pertumbuhan urus niaga perakaunan yang tidak teratur, skandal perniagaan, dan pelaporan kewangan palsu telah mengembangkan lingkungan ketidakpercayaan di antara perniagaan dan pihak berkepentingan mereka semasa membuat keputusan pelaporan kewangan. Adalah mustahak untuk memahami faktor asas yang berkaitan dengan niat pelaporan kewangan yang tidak beretika dari pengurus korporat. Kajian ini bertujuan untuk (1) meneliti pengaruh sikap pengurus terhadap niat tingkah laku mereka dalam pelaporan kewangan palsu, (2) meneliti pengaruh norma subjektif terhadap niat tingkah laku pengurus dalam pelaporan kewangan palsu, (3) memeriksa pengaruh yang dirasakan kawalan tingkah laku terhadap niat tingkah laku pengurus dalam pelaporan kewangan palsu, (4) memeriksa apakah keagamaan menyederhanakan hubungan antara sikap pengurus, norma subjektif, kawalan tingkah laku yang dirasakan, dan niat tingkah laku dalam pelaporan kewangan palsu dan (5) memeriksa apakah dirasakan sokongan organisasi ( POS) menyederhanakan hubungan antara sikap pengurus, norma subjektif, kawalan tingkah laku yang dirasakan, dan niat tingkah laku dalam pelaporan kewangan palsu.

Akar teoritis yang merangkumi kajian ini adalah Teori Tingkah Laku Terancang (TPB) yang menyediakan pemeriksaan terhadap sikap, norma subjektif, dan pengendalian tingkah laku responden dalam pengembangan niat untuk melakukan tingkah laku tertentu. Populasi kajian ini adalah jawatan pengurusan terutamanya pengurus kewangan dan perakaunan yang bekerja di syarikat awam dan swasta Pakistan yang tersenarai di Bursa Saham

Karachi. Sampel dari populasi ini mengembangkan perwakilan pengurus berpengalaman dan profesional yang sesuai.

Kajian ini mengaplikasikan reka bentuk penyelidikan kuantitatif untuk mengumpulkan data dari responden. Soal selidik tinjauan diedarkan di antara 400 responden, di mana 229 jawapan lengkap dan boleh diterima. Tanggapan ini mengukur kekuatan pendapat baik atau tidak baik responden mengenai konstruk berkaitan TPB (tiga konstruk eksogen - sikap, norma subjektif, dan kawalan tingkah laku yang dirasakan, dan konstruk niat endogen), keagamaan, dan sokongan organisasi yang dirasakan.

Teknik pemodelan persamaan struktur separa terkecil (PLS-SEM) diterapkan untuk memeriksa kerangka penyelidikan yang dicadangkan dengan menggunakan Smart PLS. Kajian ini mengikuti pendekatan analitik dua langkah yang disarankan oleh Anderson dan Gerbing (1988) dan Hair et al. (2005). Pertama, analisis faktor pengesahan (CFA) dilakukan untuk menguji kesahan konstruk dalam model pengukuran. Kemudian model struktur dinilai untuk meneliti hubungan antara pemboleh ubah yang dihipotesiskan.

Hasilnya menunjukkan bahawa sikap terhadap tingkah laku, norma subjektif, dan kawalan tingkah laku yang dirasakan mempunyai pengaruh yang signifikan terhadap niat tingkah laku pengurus untuk melanggar IFRS untuk memenuhi ramalan pendapatan. Di samping itu, penemuan menunjukkan bahawa norma subjektif adalah peramal niat terkuat. Anehnya, kesan moderasi keagamaan dan POS didapati tidak signifikan. Penemuan penyelidikan ini menyumbang kepada literatur pelaporan kewangan palsu yang ada dengan membuktikan secara empirik hubungan antara elemen yang mempengaruhi niat tingkah laku pengurus untuk melakukan penipuan korporat. Oleh itu, kajian ini memberikan pandangan bagi para eksekutif atasan untuk mendorong para pengurus membuat keputusan yang beretika yang



dapat membantu mengurangkan tingkah laku yang tidak beretika serta risiko penipuan dalam organisasi.

**Kata kunci:** Teori Tingkah Laku Terancang, Pelaporan Kewangan Penipuan, Niat, Agama, Sokongan Organisasi yang Dirasakan,

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## **ABBREVIATIONS**

<b>ACFE</b>	Association of Certified Fraud Examiners
<b>ATB</b>	Attitude Toward Behavior
<b>AVE</b>	Average Variance Extracted
<b>BI</b>	Behavioral Intention
<b>CFA</b>	Confirmatory Factor Analysis
<b>CR</b>	Composite Reliability
<b>FASB</b>	Financial Accounting Standards Board
<b>FATF</b>	Financial Action Task Force
<b>FFR</b>	Fraudulent Financial Reporting
<b>FIA</b>	Federal Investigation Agency
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>HTMT</b>	Heterotrait-Monotrait
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>NAB</b>	National Accountability Bauru
<b>NCFFR</b>	National Commission on Fraudulent Financial Reporting
<b>OST</b>	Organizational Support Theory
<b>PAD</b>	Pakistan Audit Department
<b>PBC</b>	Perceived Behavioral Control
<b>PLS</b>	Partial Least Squares
<b>PLS-SEM</b>	Partial Least Squares Structural Equation Modelling

<b>POS</b>	Perceived Organizational Support
<b>RM</b>	Religiosity for Muslim
<b>RNM</b>	Religiosity for Non-Muslim
<b>SEC</b>	Security and Exchange Commission
<b>SECP</b>	Securities and Exchange Commission of Pakistan
<b>SEM</b>	Structural Equation Modelling
<b>SN</b>	Subjective Norm
<b>TPB</b>	Theory of Planned Behavior
<b>TRA</b>	Theory of Reasoned Action

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background**

In the present study, much concentration has been given on primary sources and appropriate sources were used for the references. Specifically, this study examines the factors that influence the managers' behavioral intention decisions in fraudulent financial reporting by applying theory of planned behavior (TPB) in the context of developing country, Pakistan.

In fact, financial statements serve as a means of communicating corporate financial information that would be beneficial to both internal and external users as a consideration in decision-making during a certain period. Therefore, the information contained in financial statements should reflect the whole accounting process in a company and fulfill the information criteria. According to Romney et al. (2012), in their book entitled 'Accounting Information Systems', the criteria of useful information are applicable, consistent, completed, punctual, reasonable, verifiable, and approachable. The users of financial statements can utilize the financial information more effectively when all the information fulfilled these criteria. Nevertheless, as a matter of fact, there are still companies which do not fulfill these mandatory criteria while disclosing their financial statements. One of the alleged causes is the fraud committed by the management or employees either for group or personal gains. Fraud is an intended deceit that is committed by a perpetrator to acquire monetary benefits and the sufferer bears a huge financial loss (Kranacher et al., 2011). Albrecht et al. (2012) in their book entitled 'Fraud Examination' stated that fraud is a common term, and it encompasses a number of ways committed by human intelligence, through an individual to gain benefits from others by material

misrepresentation in a financial statement. Thus, there are no definite and uniform rules to be used as a base for defining fraud since it includes surprises, tricks, cunning, and other ways by which people are cheated. Fraud is a matter of serious concern for corporations and their shareholders (Trompeter et al., 2013). Further, it is observed that fraud happens in both public and private corporations (Moepya et al., 2016). According to the Association of Certified Fraud Examiners (2018), fraud is grouped into three forms such as asset misappropriation, corruption, and fraudulent financial statements committed by management and employees in a company. Asset misappropriation involves larceny of physical materials or embezzlement of funds. Corruption generally includes more than one entity and comprehends actions such as inducement, bribes, kickbacks, illegitimate gratuities, fiscal blackmailing, and other tricking activities for private gains. Finally, Fraudulent financial reporting is a misrepresentation of financial data and includes overstating assets and revenue and minimizing the liabilities (Ryan & Monheit, 1999).

The Treadway Commission has defined fraudulent financial reporting (hereafter, FFR) as an intended or irresponsible behavior, whether act or omission, that caused in materially deceptive financial statements (COSO, 1999). The definition of FFR may contain several factors and can be used differently. It always integrates the misuse of accounting principles. Increasing FFR amongst public listed companies have soared up anxieties among the community as shareholders, creditors, auditors, and other stakeholders (Black, 2007; Razali & Arshad, 2014). FFR is a kind of fraud with considerable deleterious footprints, lacking in shareholders trust, reputational damage, possible penalties and unlawful actions (Ernst & Young, 2010). Over the past decade, the repeated incidents of FFR (e.g., Enron, WorldCom, and Satyam Computer Services), the investors suffered losses of billion dollars due to such events. These practices indicated unethical behavior of managers. FFR is a

deliberate act to deceive others by knowingly misrepresenting events, transactions, and other imperative information for personal or organizational advantages (Carpenter & Reimers, 2005). Further, FFR is as recognized as managerial fraud because the top executives deliberately misrepresent the financial statements of their companies (Silverstone & Sheetz, 2007). Therefore, organizations, regulators, auditors, and investors have raised up their concentration on understanding this malady and how to eradicate its occurrence. According to a survey by PriceWaterhouseCoopers (2018), respondents disclosed that falsified reporting endures one of the most acute types of fraud confronted.

According to Imam (2019), there are several techniques of fraudulent reporting carried out within companies or at the manager level to mislead the users which cause serious financial losses. In the 20<sup>th</sup> century when the stock market crumpled, the ethical behavioral of executives and managers have been challenged. It is important to know the causes and solutions of unethical behavioral aiming to reestablish public confidence in fraudulent reporting. However, in the present study the concentration is on FFR which is the costliest kind of fraud where it caused an average loss of \$2 Million (ACFE, 2018). FFR caused a hefty loss of around \$ 975,000, corruption caused a large loss of around \$ 200,000 and misuse of assets caused a loss of around \$ 125,000. In 2012 to 2014, there was an increase in frequency related to financial reporting fraud cases of 1.4% and from 2014 to 2016 there was a frequency increase of 0.6% of fraud cases reaching a loss of \$ 1,000,000 (ACFE, 2018). The increasing number of fraudulent cases of financial reporting is of particular concern and it is very urgent to know what factors have been triggered for FFR. Thus, fraud is discussed as fraudulent financial reporting (FFR) in this dissertation.

Over the past few years, FFR has received considerable attention globally as the issue raised by enforcement agencies and regulators (Omar et al., 2017). FFR refers to the

manipulation of accounting standards by increasing revenue, profits, and assets, or minimizing expenses, debts, or liabilities. Revenue is among the most frequent cases reported in FFR (Beasley et al., 2000). This immediately increases the net reported income of the company (Perols & Lougee, 2011). Revenue can be manipulated in various ways. In some cases, the original transactions are recognized early or late and other cases fake events and transactions are created (Perols & Lougee, 2011; Rezaee, 2003). According to Beasley et al. (2000), most cases of FFR were recorded among the fraud companies through improper recognition of revenue. A similar type of study was conducted by Weirich (2000) in which 70% of cases included overstating the revenue either recording bogus revenue or early revenue. The overstating of revenue in the financial statement is often performed by following techniques.

- Recognizing revenue contrary to agreements with customers:

In this technique revenues are recognized on sales shipment, bills and hold transactions, or increasing receipts in commission schemes.

- Manipulating cut-off:

Under this technique revenues are recorded on consignments after the year by changing delivery documents or late recognizing the returns.

- Creating fictitious transactions:

Fake journal entries or consignments to shipments to public are generated to recognize fictitious revenue.

The issue of FFR has been of grave concern of regulators, organizations, investors, auditors and public and how to mitigate its occurrence. The policy makers and regulatory bodies have taken various measures to enhance the quality of financial reporting. The Financial

Accounting Standards Board (FASB) published nine statements of financial accounting standards to enhance the quality of financial information. The National Commission on Fraudulent Financial Reporting (NCFR) in 1987 issued 49 recommendations for prevention and prompt detection of FFR. The Security and Exchange Commission (SEC) also announced 11 financial reporting releases and 10 staff accounting bulletins to report improved financial reporting.

In the context of Pakistan, many improvements have been identified by the Pakistan Audit Department (PAD) to financial reporting and auditing (Narayan & Godden, 2000). Pakistan has adopted most of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) but not all after their proclamation. The Securities and Exchange Commission of Pakistan (SECP) made it obligatory for all listed companies, banks, and others financial institutions. The SECP is authorized, under section 225 of the Companies Act 2017, to notify financial reporting standards for the purpose of preparation of financial statements by all listed companies. Most recently, the SECP notified IFRS 9, replacing IAS 39 “Financial Instrument” Recognition and Measurement: with effect from July 2018. In addition, the SECP explains that it is compulsory for all companies to follow the IFRS requirements to improve the quality of financial information while preparing their financial statements (News, 2019). Nevertheless, the ever-increasing number of cases of fraud, corruption and fraudulent reporting in the country have questioned the reliability of financial reporting. Researchers contend that Pakistan is a country with common law, having a very unstable equity market, mostly businesses are governed by family business groups, for debt financing depends on financial institutions and banks, and low quality of accounting and disclosure practices are observed (Ashraf & Ghani, 2005).



The facts discussed earlier reveal that FFR is a matter of grave concerns for all stakeholders and the role of managers' decision is very crucial while presenting the financial statements. Thus, this study aims to explore the deterrents that have an impact on managers' decisions in financial reporting. The theoretical basis that outlined the current study is TPB which offers an analysis of the respondents' attitudes, subjective norms, and PBC in the development of behavioral intention to perform a certain behavior.

## **1.2 Problem Statement**

The business environment is considerably becoming risky that the global crimes and illicit financial activities are increasing at a very high pace so that the owners, shareholders, investors, and regulators must take strict measures while making business decisions. There is not any nation in the world that hardly secure from these economic evils. In the last decade, a plethora of financial scandals were reported that generated alarming situation especially for regulators such as how to cope with this everlasting problem which has very intense impacts on economic development of the world. Numerous economic scandals of fraud and financial corruption which devastated developed and developing economies that have adverse influences on all stakeholders of an organization. Globally, accounting bodies have raised much concerns how to fight against financial and management fraud (Khersiat, 2018).

International fraud surveys persistently find that fraud is a universal issue (Ernst & Young, 1996, 2012; KPMG, 2002, 2006; PriceWaterhouseCoopers, 2001, 2012). For example, in the past few decades, the growing concern of FFR among public companies has focused public concentration on the corporate financial activities (Persons, 1992). According to ACFE (2018) survey, there were 2,690 fraud cases throughout the world between 2016 to 2017. During the period, the percent of financial statement fraud was 10%. Instead of fact,

this kind of fraud has triggered colossal financial loss (Yendrawati et al., 2019). Persons (1992) believes that the incidence of fraud will increase in future. The results of fraudulent practices have questioned the transparency and reliability of financial reporting as a mean to guess a firm's prospects. The collapse of companies such as Enron, Waste Management, Satyam Computer Services, WorldCom, Parmalat, Health South Corporation, and others have triggered interest in the research field of fraudulent financial reporting (Moepya et al., 2016). The bankruptcy of Enron caused approximately \$74 billion market capitalization loss shareholders, employees and pensioners (Ross, 2001). Parmalat is referred as European Enron which suffered around \$20 billion because of existence of \$3.9 billion fictitious accounts (Heller, 2003). Satyam Scandal was the biggest corporate scam in India in 2009 regarded as the debacle of the Indian financial system which boosted revenue about \$1.5 billion (Banerjee, 2011). The bankruptcy of the WorldCom is considered as the biggest fraud in the United States caused by inflating assets by \$11 billion, resulting \$180 billion lost by shareholders and around 30,000 employees lost their jobs (Romero, 2002). The failure of all these companies led to the revelations about accounting misstatement. Specifically, corporate scandals in the USA such as Enron, Adelphia, Tyco, and WorldCom had flared up the rigorous dialogue and debate concerning the perception of ethical conduct around the globe (Alnabsha et al., 2018; Elamer et al., 2018; Hassann et al., 2019). Further, these spates of corporate wrongdoing increased the introduction and development of the Sarbanes Oxley Act (SOX) in July 2002, which seeks to overcome unethical business practices (Abdelhak et al., 2019). The aftermaths of these discoveries had put a dreadful impression on the reputations of accounting firms, investment banks and crediting rating agencies that has never been eliminated.

According to the National Commission on FFR published its report in 1987, FFR has developed into an ever more grave problem to the accounting profession as well as to society (Committee of Sponsoring Organizations of the Treadway Commission, 1999). A report is issued in 2007 by the National Commission on FFR, according to this report the number of fraud cases increased from 294 to 347. Moreover, Beasley et al. (2010) argued that 89% of fraud cases CEO or CFO were involved.

The Association of Certified Fraud Examiners (ACFE) stated that an organization approximately losses 5% of its annual revenue to fraud which increases annual expenses of international fraud about \$ 4 trillion per year (ACFE, 2006, 2018; Rezaee, 2003). In addition, the financial statement fraud is difficult to curb because it is frequently committed by managers and top executives (Singleton et al., 2003). Such fraud and scandal are not only prevailing in global companies but some of developing countries such as Pakistan.

Pakistan is considered a golden crescent for fraudulent activities (Kukreja, 2003). Fraud and corruption are prevalent in Pakistan and have severe impacts on economy of the country (Khan, 2018). Since the last few decades, the financial scandal and cases of fraud are increasing with the time. Unfortunately, Pakistani government was unable to eradicate such devastating issue which has adversely influenced financial integrity of the country (Qureshi, 2017). Lamentably, in Pakistan predominantly the elite class, political leaders, and senior officers are open the gate of crimes such as money laundering, bribery, corruption, whitening the black money and fraudulent activities (IBP, 2015). Pakistan is a country with a weak law enforcement and regulations. In this vein, Mukhtar (2018), contends that in Pakistan the phenomenon has been increasing at an alarming speed due to the corruption and fraud which occurring due to political and elite classes. In June 2018, Pakistan has been put in the grey list by the Financial Action Task Force (FATF) not taking satisfactory

actions against terrorist financing, money laundering and other corrupt financial practices which have serious impact on the economy (Ali, 2018). Most of the reports and indexes of the international organizations rank Pakistan as one of the countries that have a poor and fragile legal structure to fight against financial fraudulent activities (Ali, 2018). According to the Corruption Perception Index 2018 reported by Transparency International, Pakistan ranks 117<sup>th</sup> out of the 180 countries (Transparency International, 2018). Pakistan is a developing economy and facing ethical challenges in its workplace (Mujtaba & Afza, 2011). Various immoral practices like fraud, theft, bribery and others are destroying managerial reputation and financial position (Deshpande, 1996; Vitell & Davis, 1990). Generally, companies involved in unethical practices to acquire financial as well as a competitive advantages (Myer et al., 2016), as they perceive ethical activities competing to financial performance. Reflecting the similar scenario, the involvement of organization owners and employees has been exposed in the recent fake bank account scandal in Pakistan (Shah & Rahim, 2019). Similarly, Ahmed et al. (2012) and Rana et al. (2018) asserted that the fraudulent practices in the Pakistani firms that call the attention to determine their impacts on the financial activities of the country. Whereas the Transparency International on its latest survey revealed that corruption has increased in Pakistan (Transparency International, 2019). According to the Association of Certified Fraud Examiners in a survey, Pakistan is the second corrupted countries in the South Asia (ACFE, 2018). In order to increase foreign investment in the country, the regulatory bodies and political leaders must work collaboratively to weed out the presence of corruption, bribery, unethical behavior and other fraudulent activities from the country.

There is a plethora of cases which are unknown to us, but they are explicitly or implicitly influencing the economy of the country adversely. In Pakistan context, some prominent

cases of fraudulent financial reporting are as follow; A case, there were accounting firms engaged in fraudulent practices (Hussain, 2016), the financial scam of Islamic Investment Bank Limited (IIBL) that had gone bankrupt (Iqbal, 2005), another bank the Crescent Standard Investment Bank Limited (CSIBL) was involved in fraud and irregular accounting (Zuberi, 2006), and the Callmate Telips Telecom Limited (CTLL) improperly recognized its revenue (Dawn, 2008).

### **1.3 Research Gap**

Most of the studies in literature used experimental research approach to examine earning prediction and aggressive management behavior toward financial reporting (Albrecht & Romney, 1986; Bell & Carcello, 2000; Kaplan, 2001; Kaplan et al., 2009; Loebbecke et al., 1989). Unlike prior studies, the present study will use survey technique to examine the behavioral intention of managers toward FFR.

Majority of prior studies in FFR literature have concentrated in advanced countries like the USA, the UK and European countries on FFR (e.g. Badawi, 2005; Beasley et al., 2000; 1999; Carpenter & Reimers, 2005; Dechow et al., 2011; Grove & Basilico, 2008; Brennan & McGrath, 2007; Peasnell et al., 2005; Rezaee, 2003). In an emerging economy like Pakistan, there are scant studies on FFR. Thus, this study provides insightful evidence on FFR in a developing country that has a various socio-political, economic, and cultural settings from developed countries.

There are several factors influencing the ethical behavior of managers have been empirically explored by prior studies (Loe et al., 2000; Schlegelmilch & Öberseder, 2010) such as ethical decision making and business ethics. These factors however should be further explored into a comprehensive theoretical framework like TPB. There is limited

evidence in literature that tested the applicability of TPB in predicting unethical behavior (Chang, 2013; 1998). In fact, Chang (2013) ascribes that the important theories of psychology such as TPB have not been employed by the researchers to examine ethical decision making in a business circumstances. To the best knowledge of researcher only two empirical studies (e.g. Chang, 1998; Jirotmontree, 2013) in which TPB was applied to study ethical behavior but these two studies focused on consumer behavior. To have a wider concept of predictability of TPB, this study attempts to investigate the managerial decision making regarding ethical dilemmas. Most importantly, it measures the influences of attitudes, subjective norms, and perceived behavioral control on managers' intended conduct when the managers are confronted with the moral question of whether to violate IFRS or not. In the context of Pakistan, TPB has not received much attention from researchers (Kashif et al., 2017). Based on literature, the Pakistani's studies that applied TPB are examined consumer behavior (e.g. Al-Swidi et al., 2014; Kashif & Run, 2015; Muzaffar, 2015) and the ethical behavior of bankers (e.g. Mumtaz et al., 2011).

Loe et al. (2000) have reviewed 188 articles on ethical decision making in business. According to them most of studies used students as sample, only 1/3 of papers used managers as sample. In that case, researchers (e.g. Ray et al., 1999; Zarkada-Fraser et al., 1998; Zarkada-Fraser & Skitmore, 2000) argued that there is a significant difference when the responses of students are compared with those of the managers. The practice of using students as proxy of managers has very serious drawbacks (Greenberg, 1987; Oliver, 1980). Therefore, this present study aims to contribute to the extant literature by providing evidence concerning managers' intention to behave ethically in their professional life. The aforementioned contentions lead to the following research questions which help fill this vacuum.

#### **1.4 Research Questions**

1. Do attitudes of managers influence their behavior intention in fraudulent financial reporting?
2. Do subjective norms influence managers' behavior intention in fraudulent financial reporting?
3. Does perceived behavioral control influence manager's behavior intention in fraudulent financial reporting?
4. Does religiosity moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting?
5. Does perceived organizational support (POS) moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting?

#### **1.5 Research Objectives**

The main objectives of the present study are as follow:

1. To examine the influence of managers' attitudes towards their behavior intention in fraudulent financial reporting.
2. To examine the influence of subjective norms towards managers' behavior intention in fraudulent financial reporting.
3. To examine the influence of perceived behavioral control towards managers' behavior intention in fraudulent financial reporting.
4. To examine whether religiosity moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting.

5. To examine whether perceived organizational support (POS) moderate the relationships between managers' attitudes, subjective norms, perceived behavioral control, and behavior intention in fraudulent financial reporting.

This study applies theory of planned behavior (TPB) to examine corporate managers' financial reporting decisions in an ethical perspective. TPB is used to predict and explain behavioral intention of managers (Ajzen, 1991). Therefore, the behavior of managers in carrying out or not performing a form of FFR basically depends on intention. Intention, according to TPB plays an important role in defining behavior outcomes. Intention is a function of an individual's attitudes, subjective norms, and perceived behavioral control. These three factors of behavioral intention lead to behavior outcomes. The current research specifically, assesses the influences of attitudes, subjective norms, and perceived behavioral control on a manager's decision in fraudulent financial reporting to meet an earnings prediction of company.

### **1.6 Contribution of the Study**

This study adds theoretically as well as practically in the area of FFR and TPB. This study is essential since it gives an awareness of and comprehensive understanding on the behavioral aspects that conceivably influence an individual's behavioral intention of FFR.

#### **1.6.1 Theoretical Contribution**

The main purpose of the present study is to discover and generate a new knowledge base of the behaviors and intentions of managers involving in fraudulent reporting practices in Pakistan. The findings of this study contribute to the body of knowledge on the TPB as applied to the FFR in a Pakistani context. This study also contributes to the extent literature on ethical behavior. In addition, this study adds to the prior literature by explaining the



moderating role of religiosity and perceived organizational support in association of TPB model.

### **1.6.2 Practical Contribution**

Apart from the theoretical contributions, understanding the determinants of behavioral intention of managers can help policy makers and accountants who are involved in corporate governance find this study advisable in curtailing FFR. In addition, the findings of this study can help the top executives (Corporate Board of Directors) to encourage the managers on ethical decision making that could mitigate unethical behavior as well as risks of fraud in an organization. Inclusively, this study provides a significant insight that the TPB can help in predicating ethical conduct of business managers.

Further, the findings of current study can help regulatory bodies (SECP), practitioners (Accountants & Auditors), investors and researchers. The policy makers can develop various code of business ethics by predicting ethical behavior of managers. Most importantly, this study will be of importance to Pakistani Government, Regulatory Bodies like Security of Exchange Commission of Pakistan (SECP), and Anti-Fraud Organizations such as National Accountability Bauru (NAB), and Federal Investigation Agency (FIA) to identify the reasons why people behave unethically and commit fraud. Thus, it perhaps helps how to curtail fraudulent practices in Pakistan.

### **1.7 Organization of the Study**

This research explores the factors that influence managers' ethical decision-making in committing fraud while presenting financial reports. This dissertation consists of 7 chapters that include introduction, review of literature and hypotheses development, methodology,

results and analysis, and discussion and conclusion. This study is arranged in six chapters as follow:

**Chapter 1** discusses an introduction, covering the background of the study. It elaborates the problem statement, research questions and objectives of the study. It also describes the theoretical as well as practical contributions of the study. This chapter comes to an end with the organization of the research for easy reference.

**Chapter 2** highlights an analysis of the relevant literature including FFR. This analysis contains arguments on the theoretical perceptions of intention to FFR, religiosity, POS, and briefly explaining TPB with its key constructs. A prolonged debate on the TPB is incorporated that helps in developing hypotheses to be assessed.

**Chapter 3** defines a comprehensive theoretical framework for the research. It also explains proposed conceptual model and constructs along with the development of hypotheses.

**Chapter 4** describes an exhaustive framework for the research methodology that covers quantitative research design and PLS-SEM is used as statistical tool to analyze the collected data. It also covers sampling technique, defined population, construction of survey instruments and their operationalization are discussed in the review.

**Chapter 5** demonstrates the findings of the present study which are obtained through data analysis. This chapter also explains comprehensive analysis of reliability and validity of the survey items.

**Chapter 6** explains the discussion on the findings of current study. It contains the explanation of each hypothesis separately and discusses some critical reasons.

**Chapter 7** of this study states the conclusion that includes potential implications, limitations and defines some essential suggestions that are beneficial for future research to expand and broaden the findings.

### **1.8 Summary**

This chapter has demonstrated an overview of the dissertation. First of all, an introduction of FFR was provided in the background section. Secondly, a comprehensive discussion was carried out to elaborate the problem of the study from the global as well as from Pakistan context. Then, the research gap, research questions, and research objectives were rationally presented. This was followed by the significance of the study by explaining the theoretical and practical contributions.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

FFR is a serious threat for the growth of the global as well as national businesses. To empirically examine the theoretical relationships of FFR and ethical behavior of managers, this chapter reviews the most important aspects of FFR, TPB and its basic components, religiosity, and POS literature which provides supportable arguments for formulating the model that explains the suggested relationships. These components consist of defining FFR and various techniques of manipulation. After that, the background of TPB would be broadly evaluated with its key determinants and that is followed by an extensive review of religiosity and POS.

#### **2.2 Fraudulent Financial Reporting (FFR)**

FFR is a matter of severe economic and social concern. The term FFR has extensively studied by scholars under different forms like as earnings manipulation, earnings management, management fraud and accounting fraud. In fact, various studies state that these two terms are closely related to one another, with the occurrence of one often leading to another more appalling, such as earning management turn into financial statement fraud (Badertscher, 2011; Perols & Lougee, 2011). FFR is the contravention of accounting standards, insertion of fake accounts or exclusion of existing accounts (Arens and Loebbecke, 2000). In the same vein, Ball (2009) describes that FFR is a process in earnings management in which managers deliberately did not follow the GAAP and violate the applicable securities laws. There is an extensive stream of literature exploring various situations such as motives (Firth et al., 2011; Hogan et al., 2008; Richardson et al., 2005), causes (Dechow et al., 2011), audit quality (Carcello & Nagy, 2004), and corporate

governance (Beasley et al., 2000), for involving in fraudulent financial reporting. Some scholars argue that there are more possibilities of happening FFR in companies suffering financial deficits than in normal companies (Kinney & McDaniel, 1987; Mishra & Drtina, 2004). In opinion of Beasley et al. (1999), companies with poor structure, insufficient financial position, anemic audit committee and board of directors are more relatively tend to commit financial statement fraud and top executive was always accused of fraud which consequently lead to bankruptcy. Furthermore, some studies (e.g. DeAngelo, 1986; DeFond & Jambalvo, 1994; DeGeorge, Patel, & Zeckhauser, 1999; Erickson & Wang, 1999; Jones, 1991; Shivakumar, 2000; Trussel, 2003) explored the reasons the managers manipulated information in the financial statement in various corporations. The overstatement of revenue is the most prevalent type manipulation reported item in FFR (Beasley et al., 2000; Nelson et al., 2003; Rezaee, 2003) which leads to the inflation of earnings. A study has conducted by Weirich (2000) for the Panel on Audit Effectiveness, states that about 70% of cases in the study involved overstatement of revenue either fictitious revenue or premature revenue recognition.

### **2.3 Intention for Fraudulent Financial Reporting (FFR)**

In fact, the nature of human behavior is deviant that component is observed to be involved in FFR and it is needed to find out the root causes of such fraudulent behaviors (Zawawi et al., 2011). Unfortunately, it is difficult to detect real fraud in financial reporting as the decisions for committing fraud are gathered in the financial reports (Carpenter & Reimers, 2005). Because of sensitivity and complexities to observe the incident of ethical/unethical behavior, a very few studies have been done to measure such behavior (Haines & Leonard, 2007; Trevino, 1992). Nevertheless, a strong nexus was observed between intention and the actual behavior that allowing the researchers to evaluate intention instead of actual behavior

(Carpenter & Reimers, 2005). The intention to act immorally develop a source to influence the behavior as the intention performs as a proxy for a certain behavior (Buchan, 2005; Gibson & Frakes, 1997). Therefore, to assess the likelihood of FFR, the individuals' intention to commit fraud has been examined. According to Ajzen and Fishbein (1980), individuals' intentions are personal probabilities for the likelihood of selecting a specified behavior substitute. Behavioral intention may help to provide guidance and direction to regulators, top management, shareholders to devise strategies to restraint the occurrence of fraud, if the behavioral factors are thoroughly understood (Zawawi et al., 2011). Relating behavioral intention for FFR to the field of accounting is pertinent because of complexities and the costs are related with its detection (Rezaee, 2003). Several empirical studies have evaluated the intention for FFR (e.g. Carpenter & Reimers, 2005; Gillett & Uddin, 2005; and Zawawi et al., 2011).

#### **2.4 Theory of Planned Behavior (TPB)**

The theory of planned behavior (Ajzen, 1988, 1991) has appeared as one of the most prominent and widespread conceptual frameworks for the evaluation of human action (Ajzen, 2001). TPB is derived from the previous theory of reasoned action (Ajzen & Madden, 1986; Fishbein & Ajzen, 1975). The fundamental archetype of TPB is that individual who is more likely to perform a certain behavior and believes that such behavior guides to a specific outcome which is worthwhile for him/her, and has the basic possessions, competencies, and opportunities to carry out a particular behavior (Ajzen, 1985; Conner et al., 1999). More importantly, this theory can be applied to the behaviors which are not completely influenced by personal control (Corby et al., 1996). TPB added a new component as perceived behavior control to the TRA by Ajzen in 1985 that encompasses the extent of ease or difficulty in executing a behavior. "Investigations have

shown that people's behavior is strongly influenced by their confidence in their ability to perform it" (Ajzen, 1991, p. 184). The TRA originated from social psychology, has been extensively employed to predict and comprehend the societal behavior of individuals. It attempts to express the level of intent of a behavior that moves towards the behavior on its own. According to Fishbein and Ajzen (1977), TRA defines an individual's behavior that is based on intention because behavior is volitional which is affected by intention. The TRA explains that intention is the function of two important determinants, namely, attitude towards behavior and subjective norm (Fishbein & Ajzen, 1975). The TRA describes that people are very reasonable and always use available information analytically to assume the potential implications of their activities by deciding to engage in a certain behavior (Ajzen & Fishbein, 1980). Due to its predictive power, the TRA has been extensively used in predicting human behavioral intentions in various disciplines (Bock et al., 2011; Lam & Hsu, 2006). Carpenter and Reimers (2005) stated that TPB is an important extension to the TRA as it assumes to influence the behavior which does not control over by TRA. Similarly, Buchan (2005) confirmed that TPB is a significant extension of the TRA which develops a theoretical framework to better understand the key determinants that influence accountants' moral behavioral intents. In the study of Cohen et al. (2011) developed an extensive research model that incorporates the components of TRA and TPB to predict the role of managers' behavior in executing of fraud. Another similar type of study conducted by Chang (1998) to compare TRA and TBP and concluded that TPB is more dominated in predicting unethical behavior.

TPB is a psychological theory observed to be extremely practical in predicting a wide-ranging of behavior (Madden et al., 1992). Therefore, it is reasonable to believe that TPB would provide a supportive foundation to scrutinize ethical/unethical behavior (Chang,

2013). TPB with its predictive capability has been effectively employed in numerous circumstances to predict the performance of behavior and intentions, such as use a new software (Mathieson, 1991), software piracy (Chang, 2013), tax compliance (Bobek & Hatfield, 2003), examining corporate managers' decisions in financial reporting (Carpenter & Reimers, 2005), public accounting (Buchan, 2005), pollution management (Cordano & Frieze, 2000), performing breast self-examination (Young et al., 1991), avoiding caffeine (Madden et al., 1992), tax compliance behavior (Bulutoding et al., 2020), earnings management (Sayal & Singh, 2020), fraudulent behavior (Fitzgerald et al., 2020), consumer behavior (Kumar et al., 2020), and the whistle-blowing intention of management accountants (Hays, 2013; Owusu et al., 2020). TPB assumes the attitudes toward a behavior, subjective norms, and perceived behavioral control as three conceptually independent determinants of behavioral intention. Normally, positive attitudes and norms develop both a strong intention to perform and actually performing a behavior. However, PBC is the perception of easiness or difficulty to execute the behavior that can influence both the degree of intention and the intention to behavior relationship. For instance, a manager may have a positive attitude toward committing fraud and his/her co-workers may also involve in committing fraud, but the top management with strict monitoring system may make committing fraud very impossible or complicated. TPB is an influential theory to predict intention. TPB has been extensively used by social psychologists in predicting behavioral intentions (Armitage & Conner, 2007; Collins & Carey, 2001; Luthans et al., 2007). TPB also has received considerable concentration from business ethics (Carpenter & Reimers, 2005; Cohen et al., 2011; Ghazali et al., 2019). As observed by Hess (2007) the TPB is a parsimonious model, nevertheless has considerable potential in clarifying variants in intentions. The framework with its simplicity also creates it effective for comprehending



and explaining the diverse studies that have been done on ethical behavior in organizations. In addition, Beck and Ajzen (1991) added fourth component: personal feelings of moral obligation to TPB to help predict dishonest actions. Further, Carpenter and Reimers (2005) concluded that the TPB can help explain ethical decision making of business managers. The results of two studies have witnessed that the TPB is a potential predictor of intention.

TPB assumes that the core element to explain behavior is intention. Intentions are molded by attitudes toward the behavior, social norms, and perceived behavior control. Relatively, a very small model foresees and explains people behavior. Various scholars have utilized the TRA and its extension, the TPB, while investigating the intention of a behavior and well substantiated with empirical evidence (Ajzen, 1991). More recently, Park and Blenkinsopp (2009) used TPB to investigate the whistleblowing intention of Korean police officers. This study highlighted the relationship among attitude, intention, and behavior. They focused on two important TPB' components attitude and subjective norm. The results showed that subjective norms are the most important determinant to whistleblowing intention and summarized that TPB is justifiable model for predicting intention which increase our knowledge to have clearer picture of the whistleblowing and concluded that "this study showed that the TPB is valid as a general theory for explaining intentions, which adds to our understanding of the general approaches to whistle-blowing" (p. 554).

Carpenter and Reimers (2005) conducted a survey and experiment studies. In their studies, they have applied TPB model to assess the intention of organizational managers concerning FFR. The findings of both studies have supported the hypotheses that the attitude and subjective norms have substantial impact in predicting the behavioral intention. Further, suggested that the managers listen to the tone of senior executive to act immorally or not. The variable PBC has not provided a significant result. Therefore, Carpenter and Reimers

(2005) advocated that “if ethical teaching can be improved in our culture, in our schools, and in our families, we might see a shift away from fraudulent behavior” (p. 125).

Bobek and Hatfield (2003) applied TPB to investigate taxpayers’ intent to conform with internal revenue service guidelines. They employed TPB with a hypothesis that defined the three key determinants of TPB (attitude, subjective norms, and perceived behavioral control) would be positively related to tax non-compliance. These factors were verified by three different tax dishonest circumstances. The analysis of their study confirmed the application of TPB. They suggest that “the model statistics also reveal that the data fit the model relatively well, particularly the home office and tip scenarios. These results provide support for H1 suggesting that the TPB model provides a good description of tax-compliance behavioral intentions” (p. 30).

Evaluating the ethical decision of public accountants Buchan (2005) has applied TPB as theoretical model. A self-administered questionnaire was answered by accountants from five firms based on vignettes that showed an ethical dilemma. Data were collected to estimate respondents’ range from favorable to unfavorable reaction to their intention to acknowledge the behavior in the TPB’s elements. As mentioned earlier, Buchan asserted that the results provided support for the applicability of TPB to predict accountants’ ethical behavior. Buchan also substantiated that subjective norms have not shown a direct significant impact on ethical intention. However, the results further indicated an important relationship between the subjective norm and attitude.

A recent study conducted by Sayal and Singh (2020) to investigate the intention of MBA students at a university in India by collecting data from 153 respondents. They have examined the role of TPB and Machiavellianism in earnings management intentions, the

findings of this study support the applicability of the TPB in predicting individuals' intentions to engage in earnings management.

More recently, Owusu et al. (2020) investigated the relevancy of TPB model to whistleblowing intentions of accounting students in a Ghanaian university. They have also investigated the factors that predict such behavior. A survey technique was used to collect data from 524 accounting students in a university. The usefulness of TPB model in predicting whistleblowing intention has been substantiated by the findings of this study. The results of this study showed that students are more likely to report whistleblowing when they are detected, and most students use internal mechanism for reporting purposes rather than preferring external sources.

The TPB (Ajzen, 1991) presents a theoretical structure that enlarge our capability to understand the elements that affect the moral intentions of corporate managers. In several studies from the business perspective (e.g. Dubinsky & Loken, 1989; Flannery & May, 2000; Kurland, 1994; Loch & Conger, 1996; Randall & Gibson, 1991) as well as accounting perspective (e.g. Gibson & Frakes, 1997) have applied TPB model successfully and provided empirical evidences. According to these studies, in the moral domain the model is not well tested so far and provided suggestions for more investigation. The proposed theory is important to explore the direct impacts at the individual level of analysis.

#### **2.4.1 Behavioral Intention (BI)**

Behavioral Intention (BI) is the perceived likelihood of performing a determined behavior (Fishbein & Ajzen, 1975). According to theory, intention is of paramount importance determinant of the individual's behavior to perform (or not perform) that behavior. It also

mentions the plans or willingness of an individual to engage in certain behavior. Intention represents the motivations of an individuals to put efforts to do a specific behavior (Francis et al., 2004). It is considered one of the most important constructs in service marketing and consumer behavior (Caruana, 2002). According to TPB, BI is one of the most crucial determinants to perform a behavior in a defined manner (Ajzen, 1985). The intention changes into actual behavior when there is a potential to act, consequently, it will be the only possible predictor of behavior if the intention is assessed precisely (Fishbein & Ajzen, 1975).

Fishbein and Ajzen (1977) agreed that when examining individual's decision-making process by helping the TPB, behavioral intention is the most accurate predictors of actual behavior. Another research by Oliver et al. (1997) also mentioning that behavioral intention is the strongest indicators of behavior. Base on previous studies, in this research behavioral intentions refer to managers' unethical behavior in violating IFRS to commit fraud.

The main purpose of the TPB is to predict and explain individual behavior (Ajzen and Driver, 1992). In TPB model, intention is supposed to be the key element to lead the behavior. Intention is perceived as a mediator for several inspirational elements, thus it has impacts on the development of a certain behavior (Ajzen, 1991). BI is described as a function of three basic elements, namely, attitude toward performing the behavior, subjective norms, and PBC. The weightages of the three elements are supposed to differ with the type of behavior that is predicted and the situation in which the behavior is done (Ajzen and Fishbein, 1980). According to TPB, human behavior is influenced by these three essential elements that help in shaping an individual's intention to execute a behavior through their influences (Ajzen, 1991). Intention helps an individual to feel a certain behavior and will prove to be a key actor prior the actual behavior is realized. Intention

demonstrates the courage to what extent an individual is willing to attempt and planning how much determination is needed to act certain behaviors (Ajzen, 1991). According to Ajzen (2002), a person with higher degree of intention to execute a behavior, the greater possibility of intention to truly perform that behavior. In a study of managers' ethical decision-making from USA by Carpenter and Reimers (2005) found that there is a robust relationship between intention and subsequent behavior. In this study, BI is defined to evaluate the managers' ethical decision-making behavior and predict their intention in financial reporting fraud.

#### **2.4.2 Attitudes Toward Behavior**

The first important factor of intention is attitude, which can be defined as “the degree to which a person has a favorable or unfavorable evaluation or appraisal of the behavior in question” (Ajzen, 1991, p.188). Attitude has been widely discussed in social science that defines a person's like/dislike for a specific object. In the TPB, attitude is the initial and most significant conceptually determining factor of behavioral intention (Ajzen, 2002). When an individual evaluates a specific behavior, consider both the costs and benefits of that behavior (Han et al., 2009). Therefore, positively evaluated results can encourage someone to involve in a favorable behavior (Ajzen, 1991; Han et al., 2009). According to Ajzen (2002), attitude toward behavior is an individual's overall appraisal of executing the behavior in question and plays a key role to define an individual behavior. It is difficult to observe attitude directly but can be known by its indications in different noticeable clues. It is also psychological feeling that is expressed by assessing a particular behavior with some degree of preferences (Francis et al., 2004). The interest of this study is to estimate managers' attitudes towards the violation of IFRS. Attitude toward behavior implies to the degree of an individual associated to the evaluation which provides strengthen for

considering the behavior (Ajzen, 1991). Generally, TPB declares that individuals possess favorable attitudes towards specific behaviors when they perceive that the behavior is in favorable direction. Equally, when individuals possess unfavorable attitudes towards specified behaviors, if they believe that the behavior is in an opposite direction (Fishbein & Ajzen, 1975). Carpenter and Reimers (2005) highlighted that an individual is more likely to be engaged in unethical behaviors if he/she considers that the outcomes would not be penalized but rewarded. On the other hand, if someone perceives that there would be potential penalty then his / her intention towards behavior would be negative. In a seminal study on the TRA by Ajzen and Fishbein (1973) asserted that, “a person’s evaluation of, or attitude toward, a specific act is proposed to be a function of the act’s perceived consequences and of their values to the person” (p. 42).

A stream of literature has empirically supported that attitude is an essential determinant of TPB model to predict ethical intentions (Alleyne et al., 2015; Carpenter and Reimers, 2005; Harsanti et al., 2016; Owusu et al., 2020; Park and Blenkinsopp, 2009). Similarly, Sayal and Singh (2020) found that the earnings management intentions of students are mostly shaped by their attitudes.

#### **2.4.3 Subjective Norms**

Ajzen (1991, p.188) defined subjective norms as “the perceived social pressure to perform or not to perform the behavior.” The subjective norm is presumed to be the second most key determinant that influences the behavioral intention of managers. It is added up with the perspective of others towards individual to meet the expectations of the group depending on the motivation of the individual to comply. According to Bobek and Hatfield (2003), described that subjective norm belongs to an individual’s perception about the approval or disapproval of their behavior by other groups important to them and the extent

to which an individual is encouraged to agree with other groups. In the similar vein, Ajzen and Madden (1986) and King and Dennis (2003) stated that subjective norm is a likelihood that other important individuals would support or not support the execution of the behavior of interest. They include family members, friends, colleagues, and others that may influence an individual's behavior (Ajzen, 1988). To measure subjective norms, respondents are often questioned to classify the importance of obtaining the approval of people who are personally or professionally close to them before performing a certain behavior. Those who are important to managers include relatives, close friends, co-workers, and business partners (Han et al., 2010). For instance, an individual perceives to be involved in FFR would evaluate the probability of other groups (e.g., family, friends, partners) approval of such behaviors and motivated him/her to comply with these norms.

Ajzen (1991) examined the complexity of human behavior and argued that the behavioral intention of individuals could be influenced by the pressure of obtaining approval from people who are close and important to them. Such influence presents a logical justification of managers. For instance, a person tends to engage in fraudulent activities if his/her co-workers regularly participate in such activities to avoid being judged. Various studies have revealed that the perceived support of subjective norms substantially influenced someone intentions to engage in unethical behavior (Alleyne et al., 2014; Cronan et al., 2018; Jafarkarimi et al., 2016). According to Alleyne et al. (2014), the opinion of individuals in supporting the unethical conduct has a significant impact on the intentions of accounting students to violated confidentiality.

When modifying the intention/behavior of individuals who participate in fraudulent activities, Brown and Macey (1983) reported that changing the social norm has more positive significant effect than changing attitudes. Similarly, Gadenne et al. (2011)

discovered that the positive perception of others could motivate managers to not engage in fraudulent behavior. In other words, the positive perception of others toward participation in fraudulent activities can encourage managers to behave in an ethical manner. Numerous studies on marketing and human behavior suggest that subjective norms can shape the intention of individuals to adopt a certain behavior (Han et al., 2011; Leonidou et al., 2013). Similar studies applying TPB as theoretical model found that subjective norm is a significant predictor of intention toward financial reporting (Carpenter & Reimers, 2005), organizational misbehavior (Vardi & Weitz, 2002), and FFR (Awang et al., 2016). However, Buchan (2005), Chang (1998) and Uddin (2000) found that subjective norm was not an important predictor of intention.

#### **2.4.4 Perceived Behavioral Control (PBC)**

Perceived behavioral control refers to the control that individuals had over a behavior (Ajzen, 1991). According to the TPB model, intention depends on the available opportunities and resources to complete a certain behavior (Ajzen, 1991). Performing a specific behavior is full of impediments that are characterized as control factors and supposed previous learning as well as used information could control the beliefs concerning the behavior that are obtained from the experiences of associates and friends (Ajzen, 1991). Therefore, PBC is considered as psychological variable instead a metric of real control. Ajzen (1991) asserted that an individual's PBC with experience would approximate lead to actual control behavior. PBC assesses the extent of control that an individual believes he/she possesses in performing a specific behavior. The control belief implies to someone's view of difficulties or capabilities needed to carry out a certain behavior (Bobek & Hatfield, 2003a). PBC influences behavioral intention as well as predicts actual behavior (Niaura, 2013) and it helps in explaining the differences between the intentions and



behavior (Ajzen, 1991). Ajzen (2002) asserted that PBC is concerned with the self-efficacy that intimates an individual perception of ability to conduct a behavior. The suggested association between the PBC and intention/actual behavior is established on two important assumptions. At first, a rise in PBC would trigger a rise in intention and the prospect of executing the behavior. Secondly, PBC would affect the behavior immediately to the level that PBC shows the actual control (Armitage & Conner, 2001). According to Carpenter and Reimers (2005), PBC is simply a person's feelings of ease or difficulty of executing the behavior. PBC is presumed to indicate the past behavior and predicts opportunities and obstacles. The perceived managerial control belief is the level of strength/weakness that managers feel that they are able to control or unable to control to commit FFR. Accordingly, Chen and Tung (2010) and Tonglet et al. (2004) explicated that PBC is the perceived difficulty in performing behavior and the easiness to perform a behavior. When the individuals think, they possess many opportunities and resources then they predict fewer impediments, in such situation there would be greater perceived control over behavior. Initially, PBC was not a component of the model and in business decisions, it is essential to know how much control a manager has to record transactions in violating IFRS (Carpenter & Reimers, 2005). There are limited studies in literature that investigated the influence of PBC on managers' intentions in committing FFR. PBC is an antecedent construct which is rarely explored. PBC has been debated by some scholars (e.g. Ajzen, 1991, 2002; Broadhead-Fearn & White, 2006). Thus, it is important to further examine PBC in prospect of fraud (Ghozali & Pamungkas, 2019). A research done by Alleyne et al. (2013) to observe the perceived the behavioral control over the intentions of fraudulent behavior verified that PBC significantly influence fraud intention.

A study of perceived behavior control and intention by Moan and Rise (2011) on predicting intention not to “drink and drive” utilizing updated form of TPB had found that PBC was the most coherent predictor of intentions and consistent through age and gender. PBC proves to be strongest predictor on the intention not to “drink and drive” (Moan & Rise, 2011).

Contemporary literatures using TPB, have provided significant support for PBC to predict an individual intention to execute a specific behavior (Alleyne et al., 2015; Broadhead-Fearn and White, 2006; Owusu et al., 2020; Sayal and Singh, 2020). According to Saya and Singh (2020), PBC is the strongest component of TPB model to have significant effects on earnings management intentions. Also, Owusu et al. (2020) found that students’ PBC significantly predicts their intention to blow the whistle externally but has no significant effect on internal whistleblowing intentions. However, Zakaria et al. (2016) found that PBC has no significant effects on whistle intentions.

## **2.5 Religiosity**

Religion is a combined structure of beliefs and practices that are concerned to divinity and urges an individual to understand his/her relationship and obligation when living collectively in a society (Newaz, 2014). It helps an individual to set the important goals in life (Allport, 1950). Since all main religions in the world come up with a comprehensive set of principles that teach their believers how to pass their lives and accomplish their motives in life (Hood et al., 1996). Therefore, religion continue to be prevalent in human beings with the passage of time and culture because of its importance and needs in depicting a consistent, unified picture of the world (Park, 2005). Religion considerably effects individual’s belief, attitudes, values, manners, and way of life (Delener, 1994; Friedman, 2001; Pekerti & Arli, 2015; Vitell et al., 2006). At childhood people are taught religious

beliefs and gradually devote to the religion as they have more knowledge and understanding about its teachings. It is related to the culture that may help to shape an individual's behavior (Kotler, 2000). Religion plays a crucial role in individual's lives by shaping their beliefs, knowledge and attitudes (Ateeq-ur-Rehman & Shabbir, 2010). Strong relations between religion, moral belief and ethics are widely found in the literature (Arli & Tjiptono, 2014; Baumsteiger et al., 2013; Parboteeah et al., 2008; Vitell et al., 2015; Vitell et al., 2005; Weaver & Agle, 2002). The fundamental faith of religion is spiritual devotion, invariably characterized as religiosity.

Religiosity has many aspects. In facts, religiosity articulates the level beliefs in religion that is exercised by the followers in their daily lives. According to Allport and Ross (1967), religiosity has segregated into two important dimensions such as extrinsic and intrinsic dimensions and proposed that the extrinsic dimension describes an individual whose religiosity is influential to fulfil his/her basic needs or business objectives. A person with extrinsic religious values, uses religion as an opportunity to achieve his/her personal benefits like as security, recognition, or fame (King & Crowther, 2004). While the intrinsic dimension implies to genuine adherents who believe in religious guidelines and principles for their sake to promote divine and inherent growth. They possess clean, straightforward inspiration to religion and its teachings (King & Crowther, 2004). Similarly, Weaver and Agle (2002) explain intrinsically inclined people finding the religious values and principles in themselves. Further, religiosity has been categorized into three fundamental facets by social psychologists such as cognition, affection, and behavior.

Religiosity proves to be the supreme and effective foundations that significantly effects people's behavior, attitudes and values individually and socially (Mokhlis, 2009). Religiosity strengthens someone belief in the existence of God and his relation with

spirituality, to obey religious values and subsequent religious practices in every part of life (Alhouthi et al., 2015). A greater value of religiosity is found in someone who actually observes religious principles and likely demonstrates the assertiveness that progress the ethical behavior (Weaver & Agle, 2002). The influence of age, gender, education and religiosity collectively have been proved to effect the ethical aims of the people (Atakan et al., 2008; Bateman & Valentine, 2010). Further, religiosity moulds someone's self-identity which rises apparent behavioral control. In some cases, the relation between religiosity and ethical behavior looks vibrant. However, an adverse relationship has been observed in several studies between individual religiosity and the usage of prohibited or illegitimate materials (e.g., Khavari & Harmon, 1982). In various studies no important difference has been noticed in the behavior of religious and non-religious persons for example dishonesty or cheating (Hood et al., 1996; Smith et al., 1975).

In fact, religions frequently have discussed about ethical behavior from the business perspective (Vitell, 2009; Weaver & Agle, 2002). In ethical decision making, the role of religion is more noticeable. Singh (2001) states that all religions firmly put emphasis on morals and ethics. In addition, various religions bring convincing rationales that encourage morality among their believers (Geyer & Baumeister, 2005). According to Parboteeah et al. (2008), most religions with their important religious guidelines encompass robust teachings concerning the ethical behavior. All religions provide important guidelines to perform good deeds (behave ethically) and refrain from bad deeds (unethical behavior). Research in various disciplines such as personality (Maltby, 1999), cognition (Pancer et al., 1995), religiosity and delinquency (Cochran et al., 1994), specific crimes (Ellison, 1991), and denominational affiliation and religiosity (Grasmick et al., 1991) have investigated and provided important findings concerning the relationship between the religiousness and the

behavior. Hood et al. (1996, p.371) stated the relationship between the religiosity and moral behavior as "something of a roller-coaster ride". Prior experimental studies conducted by Hegarty and Sims (1978,1979) concluded that no relationship was observed between an individual's religious values and decision making in business ethics. Also, a survey from the 100 business managers expressed no linkage between the religious denomination and moral decisions (Kidwell et al., 1987) and a situation-based study indicates adverse associations between different measures of religiosity and decision-making regarding ethical business (Clark & Dawson, 1996). However, other situation-based studies demonstrate important favorable relationship between the measures of religiosity and moral business conduct (Kennedy & Lawton, 1998). Agle and Buren (1999) observed a very minor significant relationships of religious beliefs and practices of attitude towards company social responsibility. Additionally, a stream of literature provided significant findings between religiosity and ethical behavior (Giacalone & Jurkiewicz, 2003; Longenecker et al., 2004; Terpstra et al., 1993; Vitell et al., 2009). Based on these contradictory findings, it is challenging to reach on any conclusive evidence regarding the ethical behavior and religiosity. But religiosity seems to have vibrant implications for the specific areas of behavioral analysis, suggesting various disciplines of investigation such as business ethics, the impact of religion on ethical decision making. The prior empirical studies fail to provide evidences that support the influence of religiosity on ethical decision making which is substantially scarce in literature (Weaver & Agle, 2002). However, some researchers in business ethics have integrated religiosity into various model to examine its influences on ethical behavior (Bommer et al., 1987; Kashif et al., 2017). Diverse religions such as Islam, Christianity, Buddhism and other have dissimilar beliefs (Ateeq-ur-Rehman & Shabbir, 2010). This research deals with religiosity with the Islamic point of view. Islam

does not guide Muslims only in particular acts of worship but in each and every part of life (Alam et al., 2011). So, in this study religiosity is included as a moderating variable for the determination of the effect of managers' aim in compelling fraud.

## **2. 6 Perceived Organizational Support (POS)**

Initially perceived organizational support (POS) is conceptually stated by Eisenberger et al. (1986, p.501) as “employees develop global beliefs concerning the extent to which the organization values their contributions and cares about their well-being”. Eisenberger et al. (1986) contended that such principles trigger the judgements of employees about their organizational loyalty to POS, which in succession adds to the devotion of employees to organizations. POS builds a sense of commitment, where employees perceive that they should be loyal to their organizations as well as feel a sense of liability to repay the organizational commitment through engaging in a behavior that helps in achieving organizational goals. The perception of receiving respect and values from the organizations strengthen employees' faith that the organizations would satisfy their obligations of identifying and granting preferred behavior and attitudes of employees (Rhoades & Eisenberger, 2002).

The concept of POS is rooted from the norm of reciprocity (Gouldner, 1960) and social exchange theory (Blau, 1964). According to Shore and Wayne (1993), it is believed that the higher level of POS is predicted to result in higher affecting sentiments and sense of obligations towards the organization. POS is considered one of the key constructs of OST which is related to the extent of employees' beliefs about their working organization that give respect their work and takes care of their safety and security (Eisenberger et al., 1986; Rhoades & Eisenberger, 2002). OST presumes that the personnel express more interest and hard work in their jobs when they feel their employing institution is eagerly to respond with

needed resources. Based on the norm of reciprocity concept, employees acquire resources from their organization (e.g. increase in salary, promotion) deeply feel obliged to support their institution to accomplish its goals with positive behaviors (Aselage & Eisenberger, 2003). Several empirical studies verified that POS is significantly correlated to the various organizational outcomes concerning the attitudes and behaviors of employees at workplace such as organizational commitment and identification (e.g. Loi et al., 2006; Shore & Wayne, 1993; Sluss et al., 2008; Yahya et al., 2012), affective commitment (e.g. Eisenberger et al., 2001; Rhoades et al., 2001), job performance (e.g. Eisenberger et al., 1990), job satisfaction (e.g. Miao, 2011), work engagement (e.g. Caesens et al., 2016), and citizenship behavior (e.g. Liu, 2009). Adversely, various studies highlighted that the POS lessens employees' absenteeism (e.g. Eder & Eisenberger, 2008), burnout (e.g. Caesens et al., 2017) and turnover intention (Kurtessis et al., 2017).

POS describes the employees' perception regarding organizational loyalty with respect to their welfare (Suazo & Turnley, 2010) and represents an attitudinal response to the organizational as whole (Shore & Tetrick, 1991). It is proposed that POS entails an exchange relation between employees and their working organizations (Ahmed et al., 2013), whereas institutional dedication to the employees develops the feeling of positive help (Baran et al., 2012). Additionally, the encouragement from organization signifies how an employee perceives that his/her employing organization appreciate his/her work and show great concerns for his/her well-being (Rhoades & Eisenberger, 2002; Shore & Shore, 1995). According to Krishnan and Mary (2012), POS is explained as the employees' views and beliefs about their engagement in the organization is appreciated and respected by their employees. POS is proved to be important for the employees' wellbeing and performance. It is a strong social exchange nexus which resulting from the interactions between the

organizations and their employees (Eisenberger et al., 1986). Researchers believed that POS is supposed to promote employees' recognition and help achieve organizational objectives and those perform much better than normal responsibility (Shore & Wayne, 1993; Wayne et al., 1997). According to OST, employees build up a comprehensive perception that to what degree the organizations respect their contributions and show concerns about their prosperity (Eisenberger et al., 1986; Rhoades & Eisenberger, 2002). Similarly, in accordance with OST, the enhancement of POS is inspired by employees' intention to allocate humanoid traits to organization (Makanjee et al., 2006; Rhoades & Eisenberger, 2002). The perception of employees for organizational support is higher when they consider that the organizations take care about them and demonstrates respect for their supportive work. In consequence, these employees are supposed to show a higher degree of affecting interest and determination to the institution than those who consider a lower degree of assistance from the organization (Suazo & Turnley, 2010). Employees in an organization attempt to know how organizational environment influences their attitudes, action, motivation, and welfare (Brown & Leigh, 1996). Eisenberger et al. (1990) advised that employees' perception of how an organization respects them would be important for assessing their attitudes profiting the organization. Further, Rousseau and Parks (1993) assumed that an organization is not satisfying its employees' needs and not supporting them, they may develop poor ethical behavior. On the other hand, employees show ethical behavior towards their organization, when they perceive their organization is supportive and care about them.

## **2.7 Summary**

This chapter has concisely reviewed the academic literature. First, the concept of FFR was briefly explained and identified several techniques of FFR with a quick glance over the



revenue method. Second, a comprehensive literature has been done on the TPB model and its key components were examined in this study, namely attitudes, subjective norms, PBC and behavioral control. Third, religiosity is supposed to be an important construct to influence the behavior of an individual. It was incorporated as a moderating variable with other stated relationships. Finally, the moderating relationships of POS was presented to examine the behavior of corporate managers.

Universiti Malaya

## CHAPTER 3

### THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

#### 3.1 Introduction

This chapter presents the theoretical framework and hypotheses development. The chapter begins by considering the theoretical underpinnings of the conceptual framework, analyzing the prior literature, and offering an overview of the framework. The suggested conceptual framework and constructs are also explained along with the development of hypotheses. The hypotheses depict the relationship among the constructs and will be used in testing and answering the research questions.

#### 3.2 The Theory of Planned Behavior's Framework

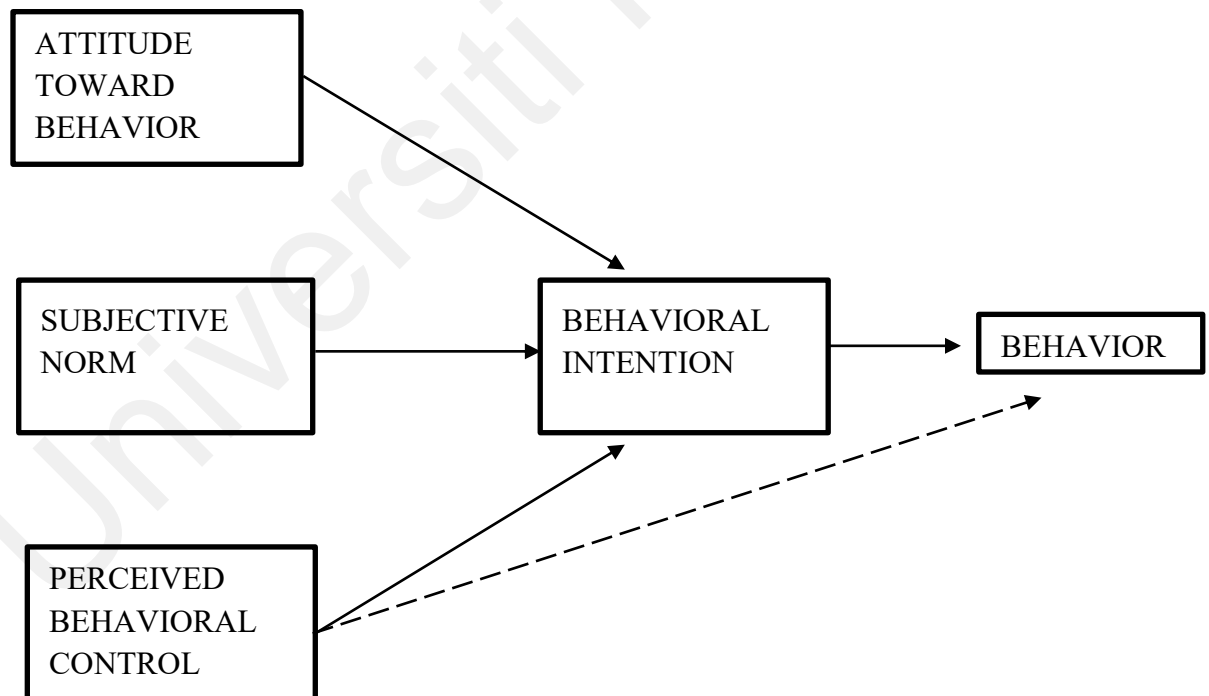


Figure 3.1: The Theory of Planned Behavior (TPB), adapted from (Ajzen, 1991)

Figure 3.1 depicts an overview of the theoretical framework for the current research. It highlights the relationship of TPB's framework (Ajzen, 1991). The Theory of Planned Behavior (TPB) as stated by Ajzen (1991) describes a theoretical model for thoroughly examining the factors that affect behavioral preferences and had been employed to other situations so as to know the behavior of individuals (Tonglet et al., 2004). This is among the well-renowned social psychology theories to foretell individual's behavior. Numerous researches had applied this theory and explored the determinants of social problem (Sommer, 2011). In the current study, this theory attempts to analyze the unethical behavioral intention of managers, overstating the revenue to violate IFRS and perpetrate fraud in financial reporting decisions. TPB had been successfully used in earlier studies in determining the behavior intention. The TPB aims to predict and explain a human intended behavior (Ajzen, 1985). The theory elaborates that behavior is predicted by intentions to perform a clearly defined behavior (Ajzen, 1991).

Behavioral intention is an individual's subjective likelihood that someone will do a certain behavior (Fishbein & Ajzen, 1975). The behavior is determined by intention (Ajzen, 1991). If someone has stronger intent to carry out a behavior, the higher is the possibility that he/she will engage in that behavior. In the initial, TBP states three factors supporting the intention of individual's behavior as follows: attitudes towards behavior, subjective norms and perceived behavioral control (Ajzen, 1991). These factors would influence individual's intention toward behavior. In this research the behavioral intention is related to manager's intention to make financial reporting decision that would infringe IFRS and would be supposed as unethical and fraudulent. For the sake of current study, more concentration is on the attitudinal dimension of the theory. Therefore, this study applies TPB as theoretical

basis to understand the ethical/unethical behavioral intention of managers in financial reporting in Pakistan.

### **3.3 Theoretical Framework**

The following diagram depicts an explanation of proposed research framework for the present study. It outlines the nexus between dependent variable (behavioral intention) and independent variables (attitude toward behavior, subjective norm, and perceived behavioral control). In addition, religiosity and perceived organizational support (POS) have been incorporated in the conceptual framework. The variables in the proposed framework and their theoretical association were recognized through literature. This conceptual framework is derived from the previous models of Ajzen (1991) and Carpenter and Reimers (2005).

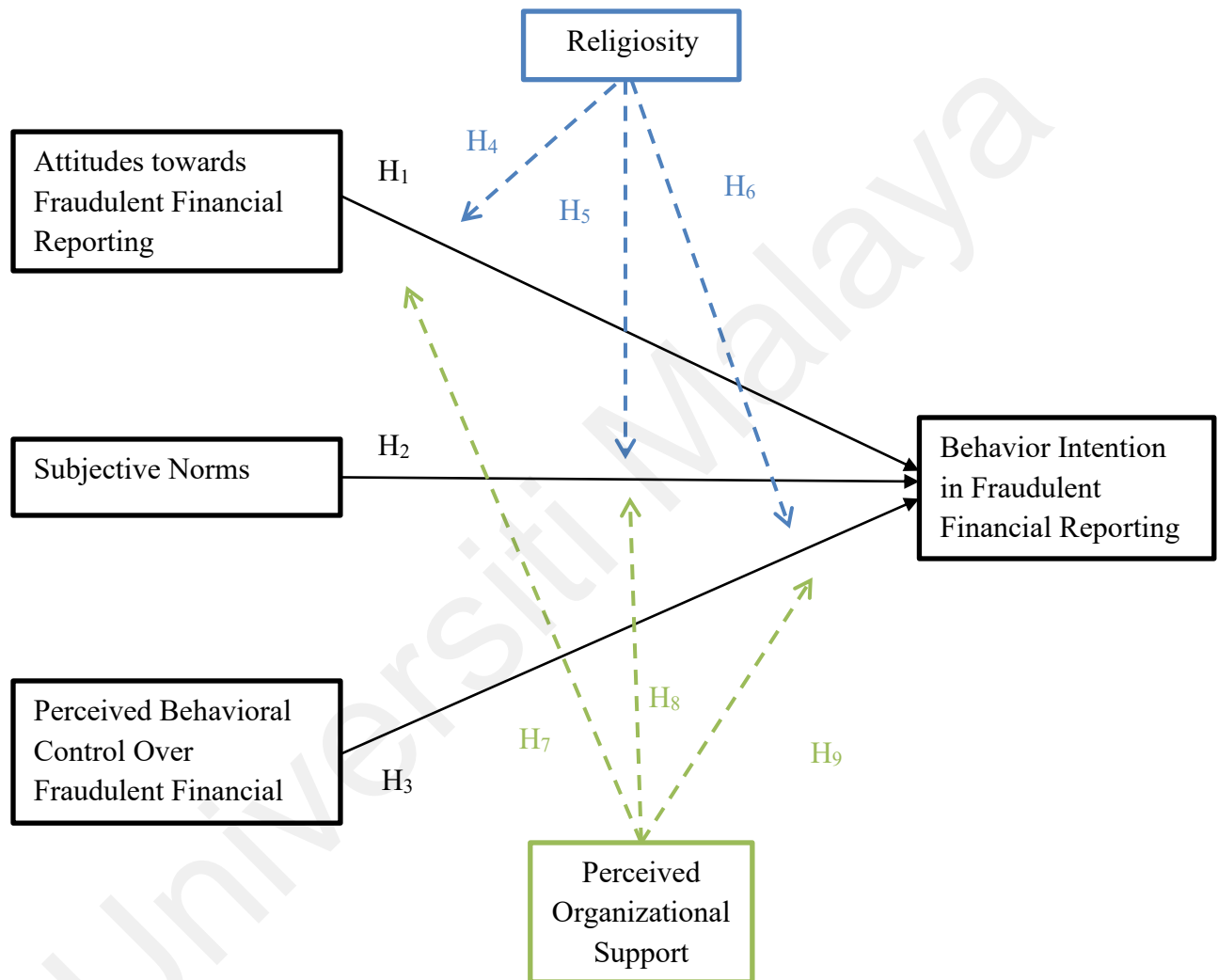
TPB is an extension of the theory of reasoned action (Fishbein and Ajzen, 1975). TPB is one of the most practical and convincing theoretical frameworks for shaping individual behavior (Ajzen, 1991). TPB theorizes that intention is the key component to determine actual behavior and is shaped by attitudes toward behavior (ATB), subjective norms (SN) and perceived behavior control (PBC) (Ajzen, 1991). Ajzen and Fishbein (1980) documented that intentions include determining factors how determined an individual is to perform a given behavior. As a result, it turns out that the stronger a person's intentions, the more likely he or she to perform a certain behavior. Subsequently, Beck and Ajzen (1991) incorporated moral obligation to TPB to realize the importance by considering personal feelings of individuals to perform a certain behavior. These constructs together signify a person's actual control over their own behavior. Assessing behavior intention is regarded easier and more viable than assessing actual behavior. Even though, the TPB model can be examined better through direct observation of behavior. This perception is supported by Carpenter and Reimers (2005) who suggest that there is a significant impact of intentions

on an individual behavior. Hence, the TPB is employed in this study to focus on the factors that are essential in predicting the behavior of people in the context of FFR.

The founder of the TPB has observed the addition of more predictors to his model (Ajzen, 2001). Along with TPB's constructs, based on prior literature, two more constructs namely religiosity and perceived organizational support (POS) were incorporated in the TPB to examine behavior intentions from FFR context. To broadly understand the scope of constructs by considering ethical decisions several recent studies have emphasized the need by adding ingrained as well as other constructs that influence the behaviors and intention of managers. Religiosity is recommended as an important socio-cultural construct to examine the ethical behavior in work settings (Singhapakdi et al., 2013). Religiosity entails religious beliefs that has an impact on its followers' behavior and mindset (McDonald & Pak, 1996). An individual shows his/her religiosity by performing religious activities, following sacred principles, and serving the religion. Religiosity is regarded as an important human behavioral characteristic because it covers both intrinsic and extrinsic behavior motivations. According to Winchester (2008), spiritual practices express a strong faith which helps an individual to develop ethical values that lead to an overall ethical social setting. Thus, the religiosity is explicitly included in the TPB model which leads to explore the ethical judgements and behavior of managers.

The second construct has been added to the TPB model as moderating variable that is perceived organizational support (POS). POS is regarded as an important construct influencing an individual intention to behave ethical. POS is defined as a perceived belief by an employee that the extent to which an institution would support and care about his/her well beings (Eisenberger et al., 1986). Employees express an attachment (positive behavior) to their organization when they expect a reasonable exchange nexus between their

contributes and the prizes receive for their works (Etzioni, 1961). It is assumed that employees express a positive attitude when they perceive higher level of support from their organization (Eisenberger et al., 2001).



**Figure 3.2: Theoretical Framework of the Study**

### 3. 4 Hypotheses Development

The following hypotheses were developed based on conceptual framework to achieve the research objectives.

### **3.4.1 Relationship between attitudes and behavior intention**

The TPB model has identified attitudes, subjective norms, and perceived behavioral control as three conceptually independent determinants of behavior intention. Attitude is the first important determinant of behavior intention (Ajzen, 1991).

The prior literature (Ajzen, 1991; Armitage & Conner, 2001; Carpenter & Reimers, 2005; Chang, 1998; Conner & Armitage, 1998; Gillett & Uddin, 2005; Jones, 1991; Leung et al., 2005; Uddin & Gillett, 2002; Zawawi et al., 2011) empirically provided substantial supports that attitude towards behavior has significant influences on the intention of managers in committing financial reporting fraud. Behavior shows as the main predictor of intentions. However, Rustiarini and Sunarsih (2015) contended that attitude towards behavior has shown no impact on behavioral intention. It is believed that employees' attitude towards FFR would play an important role in their decisions to commit such act. As the TPB predicts such attitudes would be assessed by employees' behavioral beliefs. Therefore, the following hypothesis is proposed to determine the attitudes of managers' ethical intention in the violation of IFRS to commit fraud.

H<sub>1</sub>: There is a positive relationship between managers' attitudes and their behavior intention in fraudulent financial reporting.

### **3.4.2 Relationship between subjective norms and behavior intention**

Ajzen (1991) recognized subjective norm as secondary determining factor of behavior intention that refers to the perceived social pressure felt by individuals with regards to their behavior. This norm also refers to an individual's feeling of social pressure from people or groups who they consider important and who can influence their decision (Park, 2000). Prior literatures have disclosed that there is a positive relationship between subjective

norms and behavior intention (Chen & Tung, 2014; Han et al., 2011). The significant role of subjective norm as a determinant of behavior intention has been well established in marketing and consumer behavior studies (Chang et al., 2014). Managers' subjective norms are personal beliefs about the people who are very close to him/her, whose views are appreciated, cherished and well-regarded and would support the managers not to involve in FFR that motivate the managers to follow certain behaviors. In the case of FFR, a manager who perceives that other groups approve the violation of GAAP, he or she would likely to breach accounting principles, therefore, commit FFR to meet earnings predictions (Carpenter & Reimers, 2005; Zawawi et al., 2008). Managers sometimes make decisions considering the social perspectives, so this hypothesis is developed to test the relationship.

H<sub>2</sub>: There is a positive relationship between subjective norms and managers' behavior intention in fraudulent financial reporting.

### **3.4.3 Relationship between perceived behavioral control and behavior intention**

Another important dimension of TPB is perceived behavioral control (PBC) that is defined by Ajzen (1991) as "the perceived ease or difficulty of performing the behavior". Numerous studies showed that the individuals' intention is positively effect by their confidence in their ability to behave in certain manner (Chen & Tung, 2014; Conner & Abraham, 2001; Han et al., 2010). Literature also confirmed that PBC was one of the significant predictors of intention among the TPB components and positively predicted intention of behavior (Conner & Armitage, 1998; Ionnau et al., 2011; Mahmud & Osman, 2010; Niaura, 2013). Moreover, PBC had contributed percentage on the factor of intention in most of the research regarding intention of behavior (Conner & Armitage, 1998). However, very few studies found that PBC was not an important predictor of intention (Carpenter & Reimers, 2005). This was also supported by research done by Zhou (2012)



based on the TPB where results yield that they had not perceived any barrier on recycling intention. Based on the prior literature, the following hypothesis is suggested.

H<sub>3</sub>: There is a positive relationship between perceived behavior control and managers' behavior intention in fraudulent financial reporting.

#### **3.4.4 Moderating effect: Religiosity**

Religiosity refers to individuals' commitment and devotion to their religious beliefs and the extent to which their religious activities are reflected in their attitudes and behavior (Rahman et al., 2015). Several studies have found that there is an important relationship between religious attitudes and practices (Wilson and Liu, 2011). According to Rahman et al. (2015), religiosity is an influential component of a culture that has a significant impact on consumers' attitudes towards halal cosmetic products. Souiden and Jabeur (2015) found that religiosity significantly affects the attitudes of consumers towards using Islamic banking services. Similarly, Chai and Tan (2016) discovered that religiosity develop a positive attitude of consumers choosing green products. Also, Kum-Lung and Tek-Chai (2010) reported that religiosity is an important factor of attitudes towards business ethics. A religious person has distinct values in his/her life than those who are secular (Ibrahim et al., 2017). According to Hosseini et al. (2019), religious people have a crucial role in their daily routines and decisions. Muslims who are most committed to Islam are more influenced by Islamic principles (Iranmanesh et al., 2019).

In the Islamic society and in an organization, all kinds of managerial decisions and practices are dominantly effected by religiosity (Alam et al., 2011). It is demonstrated to pray at work, to be humble and honest, and to work for the welfare of each other (Beekun

& Badawi, 2005). Thus, religiosity is included into the TPB model through the following hypothesis.

H<sub>4</sub>: Religiosity moderates the relationship between managers' attitudes and their behavior intention in fraudulent financial reporting.

Religiosity proves to be imperative that highly effects social and cognitive behavior of a person (Ahmed et al., 2012). In recent days, researchers determined that the greater levels of religiosity have a positive effect to draw one's individual-identities that increases the vision of progressing the moral intentions (Vitell, 2009) that proceeds decision making ethically (Bloodgood et al., 2008). The managers who practice greater religiosity behave more ethical and report fraudulent activities of their coworkers (Dyrenge et al., 2012). It is consequently proposed from the following study that religiosity effects individual's norms, and the ethical intentions of managers subsequently, the following hypothesis expresses the idea.

H<sub>5</sub>: Religiosity moderates the relationship between subjective norms and managers' behavior intention in fraudulent financial reporting.

According to social factors for instance religion and culture, levels of religiosity varies considerably (Alam et al., 2011). Religiosity is highly connected with the supposed control of behavior followed by the people organizationally and socially (Cherry, 2006; Cohen et al., 2012; Vitell, 2009). Higher levels of balance in behavior is perceived by the workers who score large on religiosity (Walker et al., 2012). On the other hand, people with increased levels of balance in their behavior are prone to be highly effected by teachings and practices of the religion (Welch et al., 2006). Consequently, the supposed behavioral balance is determined to be highly effected by the coordination of the people headed to

religious opinions which then influence the intentions ethically (Baumeister et al., 2007).

To incorporate above discussed ideas, this study abstractly hypothesizes the following:

H<sub>6</sub>: Religiosity moderates the relationship between perceived behavior control and managers' behavior intention in fraudulent financial reporting.

#### **3.4.5 Moderating effect: Perceived Organizational Support**

Perceived organizational support is an important type of normative isomorphism. Normative isomorphism seeks to enhance employees' professional skills by setting the most apposite structure and organizational support is considered to be one of the strategies of normative isomorphism. According to Alleyne (2010), POS is the extent to which an individual realizes that the organizations value and support individuals' actions. POS encourages employees to help their organization in accomplishing its established goals. According to social exchange theory, employees are more likely to feel an affiliation with the organization when they have a higher degree of support with the organization (Eisenberger et al., 1986). Therefore, employees develop positive behaviors when they realize more supports from their organizations. According to Eisenberger et al. (1990), a positive relationship, which valued employee perceptions and gain awareness by the organization with awareness in carrying out job responsibilities, affective involvement, and encouraged to innovate. A study conducted by Alleyne (2010) indicated that the moderating relationship of POS would increase the whistleblowing intentions.

In fact, the prior literatures have evidently proved that POS develops a favorable atmosphere for the employees. However, the role of POS as moderating construct has been received less concentration in the literature. In this regard, the intention of managers to behave ethically is influenced by the perception of assistance, they receive from their

organizations. Based on the above, this study incorporates POS in the TPB model through the following hypotheses to comprehend the moderating effects.

H<sub>7</sub>: Perceived organizational support moderates the relationship between managers' attitudes and their behavior intention in fraudulent financial reporting.

H<sub>8</sub>: Perceived organizational support moderates the relationship between subjective norms and managers' behavior intention in fraudulent financial reporting.

H<sub>9</sub>: Perceived organizational support moderates the relationship between perceived behavioral control and managers' behavior intention in fraudulent financial reporting.

### **3.5 Summary**

This chapter has discussed the theoretical framework and development of hypotheses in examining the behavior intention of managers in fraudulent financial reporting. The discussion contained the formulation of major hypotheses based on the review of prior literatures. At the same time, the moderating effects of religiosity and POS were also described that would have impact on the behavior of managers. In subsequent chapter, the research methodology examines the significance of these hypotheses.

## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

#### **4.1 Introduction**

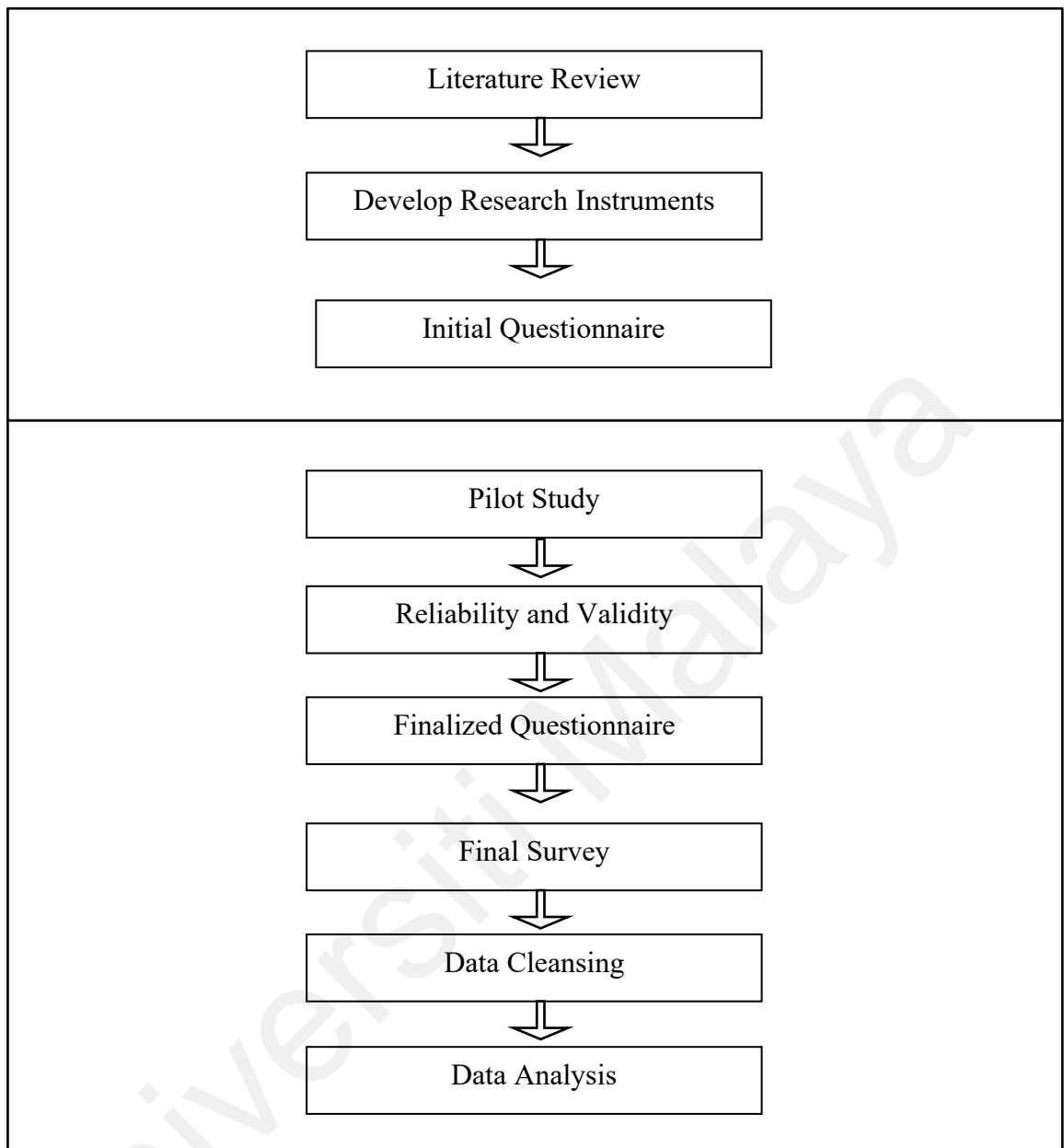
The main objective of this study is to examine unethical behavioral of managers in fraudulent financial reporting by exploring the TPB variables: attitudes toward behavior, subjective norms, and perceived behavior control. This chapter describes the research design and paradigm which covers the development of measures and their operationalization that helps in data collection. In addition, it entails population, sampling technique, data collection methods, and the statistical procedures employed in testing the stated hypotheses.

#### **4.2 Research Design**

The research design is an essential step in planning basic experimental research which helps in selecting the best approach and procedure to collect and evaluate empirical data (Punch, 2000). According to Zhang (2000), the major objective of research design is to associate and show its relationship with the data and the instrument. Further, he opined that a research design should be developed based on research questions and must be relevant for the collection of data. There are basically three main approaches to conduct a research such as quantitative method, qualitative method and mixed method (Cresswell, 2012; Williams, 2007). A quantitative approach is applied by scholars to examine their theories and test the hypotheses by considering a control group or setting (Veal, 2006). The objective of quantitative approach is to develop, verify or validate the hypothesized relationships and to establish perceptions which prevailing theories (Leedy & Ormrod, 2013). To select an appropriate research approach is entirely relied on the features of required data to resolve the research problem. Based on research required data and the nature of research problem,

this study applied a quantitative approach. The motivation for adopting a quantitative research strategy because it is one of the most used methods in social sciences as well as natural sciences research. It is helpful for the researcher to test and establish reliability and validity of prior researched theoretical hypotheses that are exclusively dependent on experimentation and measurement procedures (Patton, 1990). This research aims to examine the factors that influence human behavior which requires testing of hypothetical observations. Additionally, this study is formulated using appropriate literature and poses a clear relationship between constructs needed to uncover the relevant data with the help of statistical tests that could not be achieved through qualitative technique (Collis & Hussey, 2003).

In pursuing the objectives, this study employed the survey research technique to measure the predictive power of TPB in the context of financial reporting. Generally, researchers would prefer survey as more pertinent research technique for primary data collection. The survey research design is relevant for many types of research and survey is beneficial in demonstrating the features of a large population. This technique can offer a wide-ranging capacity which makes sure more specific sample to collect desired outcomes that can help to draw inferences and take essential decisions. It is most crucial to select a proper technique to certify data collection process (Bradley & Devadason, 2008). Questionnaire technique was utilized because it is suitable to collect straightforward information of human behavior (Powell, 2000). The research methodology in this study was adapted from Xie (2011). The entire process consists of two major steps: 1) development of survey instrument and 2) collection of data and analysis.



**Figure 4.1: The Research Process**

### **4.3 Development of Research Instruments**

The survey instrument was developed considering the following three steps. First, it is important that the research questions should be concise and clearly understandable (Kumar, 2005). Second, the items in the questionnaire should not be very long that the respondents may feel fatigue (Lindell & Whitney, 2001). Third, A relevant Likert Scale should be used

for determining every item with adequate point to avoid over-chosen the neutral option by the respondents (Cox, 1980). Based on literature, a five-point Likert Scale was applied to determine the preferences of respondents to answer the questions. According to the researchers Jenkins and Taber (1977) and Remmers and Ewart (1941), a five-point scale reports higher degree of reliability as compared with other scales. Further, it is suggested that a scale with five points is more reasonable and enables the respondents to demonstrate their opinions clearly (Marton & Williams, 1986). In addition, some studies (e.g. Babakus & Mangold, 1992; Hays, 1993; Devlin et al., 1993) found that a five-point scale is beneficial to achieve a greater level of response rate.

#### **4.4 Structure of Questionnaire**

The ultimate objective of survey instrument is to gather data on certain constructs of the study. The questionnaire consists of ten pages. This entails an introductory cover letter that gives a brief explanation of the objectives and methodology of the research as well as keep the respondents ensure about their voluntarily participation in the study. The questionnaire has various sections, and each section has been separated from one another with a clear caption. At the beginning of each section clear instructions were given to avoid any further misunderstanding (Wong, 2002). These sections have displayed in a systematic manner in order to assure easy understanding to fill the questionnaire.

The first section (A) of this questionnaire consists of cover letter and respondent's consent form. The second section (B) which covers the demographics information of respondents such as age, gender, marital status, qualification, accounting professional qualification, employment status, position in organization, industry, experienced, level of income, religion, and ethics. The final section (C), further divided into three sub-sections: TPB measures, Religiosity and POS. The TPB's measures consist of 43 statements, religiosity



20 statements and POS 10 statements. There was a total of 73 statements where respondents were asked to what extent they agree or disagree with each statement. Further, a Likert scale of five points has been used to measure all the constructs: 1 = “Strongly Disagree”, 2 = “Disagree”, 3 = “Neutral”, 4 = “Agree”, 5 = “Strongly Agree”.

#### **4.5 Variables Measurement**

This section illustrates the development of measurements instrument applied in the current study. To obtain the opinion of respondents regarding the intention of managers in fraudulent activities closed ended questions were used. The items are used in this study their reliability and validity were previously verified. A five-point Likert scale was presented to know the preferences of intensity in differentiating the respondents’ perception. The explanation of each measurement variable as follow:

##### **4.5.1 Operationalization of TPB’s Measures**

The TPB has been broadly studied in the literature. The TPB’s construct comprises of attitude towards the behavior, subjective norms, PBC and behavioral intention. Several prior studies (e.g. Ajzen, 1991; Carpenter & Reimers, 2005; Hays, 2013; Kashif et al., 2017) have applied and verified their theoretically construct validity and reliability. However, this study has adopted these constructs to assess the behavioral intention of managers in prospects of FFR with some modifications.

##### **4.5.1.1 Attitude Toward Behavior (ATB)**

Six indicators were used to measure attitudes of respondents. These items were measured through a five-point Likert scale ranging from 1 = “Strongly Disagree” to 5 = “Strongly Agree”. The mean of all six items were calculated. Table 4.1 displays the six statements

have been adopted from the studies of Fransic et al. (2004) and Hays (2013) to measure the individual's attitudes towards behavior intention in FFR.

**Table 4.1: Operationalization of Attitude Toward Behavior**

Construct items		Source
<u>Attitude Towards Behavior (ATB)</u>		
ATB_1	I feel uncomfortable when violating IFRS to meet earnings prediction.	Fransic et al. (2004)
ATB_2	I feel reluctant to be involved in fraudulent activities.	Fransic et al. (2004)
ATB_3	I sometimes feel it good to violate IFRS to meet preplanned objectives.	Fransic et al. (2004)
ATB_4	I feel the direction of top executive influence my decisions to achieve organization's objectives.	Fransic et al. (2004)
ATB_5	I find that being fraudster is not a good attitude.	Fransic et al. (2004)
ATB_6	If I find any misstatement in the financial statement, I will report it.	Hays (2013)

#### 4.5.1.2 Subjective Norms (SN)

To know the influence of subjective norms on behavior intentions twelve items have been adopted from the prior studies of Ajzen (1991), Mohammad et al. (2017), Kashif et al. (2017), Carpenters & Reimers (2005, and Hays (2013). These statements were measured by applying a five-point Likert scale extending from 1 = "Strongly Disagree" to 5 = "Strongly Agree". The mean values of respondents' responses were assessed whereas higher mean demonstrates higher influences of subjective norms on intent.

**Table 4.2: Operationalization of Subjective Norms**

Construct items		Source
<u>Subjective Norms (SN)</u>		
SN_1	Most people who are important to me believe I should commit	Ajzen (1991)

	fraud to meet earnings prediction.	
SN_2	Most people who are important to me recommend that I should violate IFRS to meet earnings prediction.	Ajzen (1991)
SN_3	My family members think that I should not commit fraud to meet earnings prediction.	Mohammad et al. (2017)
SN_4	People whose opinions are valuable to me think that I should follow IFRS.	Ajzen (1991)
SN_5	Most of the people in this organization would approve my intentions to behave ethically.	Kashif et al. (2017)
SN_6	My friends think that they should influence me to perform fraudulent activities.	Mohammad et al. (2017)
SN_7	Most of the people I admire follow IFRS to meet earnings prediction.	Ajzen (1991)
SN_8	Most of the people who are important to me think that I should defer the supply of expense.	Carpenters & Reimers (2005)
SN_9	Most people who are important to me think that I should report fraudulent accounting activity.	Hays (2013)
SN_10	Most people whose opinions I value would approve of my reporting fraudulent accounting activity.	Hays (2013)
SN_11	Most people I respect and admire would report fraudulent accounting activity.	Hays (2013)
SN_12	Most people like me would report fraudulent accounting activity.	Hays (2013)

#### 4.5.1.3 Perceived Behavioral Control (PBC)

The level of PBC was estimated by considering thirteen items presented in the Table 4.3. The respondents are requested to provide their answer applying a five-point Likert scale coded as 1 = “Strongly Disagree” to 5 = “Strongly Agree”. The mean value of thirteen items was computed to acquire level of PBC that influences the intent of respondents. These questions have been adopted from the studies of Ajzen (1991), Mohammad et al.

(2017), Carpenters & Reimers (2005, and Hays (2013) to examine the influence of control perception on behavior intentions.

**Table 4.3: Operationalization of Perceived Behavioral Control**

Construct items	Source
<u>Perceived Behavioral Control (PBC)</u>	
PBC_1 I commit fraud in financial reporting is completely up to me.	Ajzen (1991)
PBC_2 I know how to utilize available opportunities to achieve earnings predictions.	Mohammad et al. (2017)
PBC_3 For me, committing fraud is easy.	Ajzen (1991)
PBC_4 For me, the decision to violate IFRS to meet targets is my own decision.	Ajzen (1991)
PBC_5 I am confident that I can take right decisions while presenting the financial statement.	Hays (2013)
PBC_6 It is easy for me to achieve business targets without committing fraud.	Carpenters & Reimers (2005)
PBC_7 I have complete control of making the decision to defer the recognition of the supplies expense.	Carpenters & Reimers (2005)
PBC_8 For me to defer the recognition of the supplies expense is easy.	Carpenters & Reimers (2005)
PBC_9 If I want to, I could easily defer the recognition of the supplies expense.	Carpenters & Reimers (2005)
PBC_10 I am confident that I can report fraudulent accounting activity.	Hays (2013)
PBC_11 Whether I report fraudulent accounting activity is completely up to me.	Hays (2013)
PBC_12 If I really wanted to, I could report fraudulent accounting activity.	Hays (2013)
PBC_13 For me to report fraudulent accounting activity is under my control.	Hays (2013)

#### 4.5.1.4 Behavioral Intention (BI)

Table 4.4 gives the description of twelve statements adopted from the studies of Mohammad et al. (2017), Carpenters & Reimers (2005, and Hays (2013) to assess the influence of respondents' behavior intention. A five-point Likert scale coded as 1 = "Strongly Disagree" to 5 = "Strongly Agree" was deployed to ask the respondents to record their answers. The BI was judged by calculating the average score of answers from twelve items of this construct.

**Table 4.4: Operationalization of Behavioral Intention**

Construct items		Source
<u>Behavioral Intention (BI)</u>		
BI_1	I intend to violate IFRS to meet earnings prediction.	Carpenters & Reimers (2005)
BI_2	I am willing to violate IFRS to meet earnings prediction.	Mohammad et al. (2017)
BI_3	Behaving ethically in my organization, will make me a better professional manager.	Mohammad et al. (2017)
BI_4	I have a very high intention to be a responsible manager.	Mohammad et al. (2017)
BI_5	I intend to delay the recording of supply expense.	Carpenters & Reimers (2005)
BI_6	I will make an effort to delay the recording of supply expense.	Carpenters & Reimers (2005)
BI_7	I intend to report fraudulent accounting activity.	Hays (2013)
BI_8	I will report fraudulent accounting activity.	Hays (2013)
BI_9	I am willing to report fraudulent accounting activity.	Hays (2013)
BI_10	I plan to report fraudulent accounting activity.	Hays (2013)
BI_11	My reporting fraudulent accounting activity will make me a better professional accountant.	Hays (2013)
BI_12	My reporting fraudulent accounting activity is a	Hays (2013)

#### 4.5.2 Operationalization of Religiosity

In this study religiosity construct was incorporated to acquire the intent of respondents from the religious prospects. The literature has provided extensive evidence that discussed the religiosity as construct (e.g. Delener, 1994; Friedman, 2001; Pekerti & Arli, 2015; Vitell et al., 2006). However, religiosity is assessed by considering two characteristics of respondents: religiosity for Muslims (RM) and religiosity for Non-Muslim (RNM). There were twenty items to measure the religiosity: ten items for Muslims adopted from the studies of Alam et al. (2011) and Khan (2014), and ten for non-Muslims were previously employed by Stephen et al. (2007). The respondents were asked to fill the questionnaire on a five-point Likert scale ranging from 1 = “Strongly Disagree” to 5 = “Strongly Agree”.

**Table 4.5: Operationalization of Religiosity**

Construct items		Source
<u>Religiosity for Muslim (RM)</u>		
RM_1	I regularly offer prayers five times a day.	Alam et al. (2011)
RM_2	I fast during the holy month of Ramadhan.	Alam et al. (2011)
RM_3	Reciting the Holy Quran is included in my daily routine.	Alam et al. (2011)
RM_4	I pay Zakat fitrah every year if I meet the prescribed criteria.	Alam et al. (2011)
RM_5	I try to follow Islamic conjunctions in all matters of my life.	Alam et al. (2011)
RM_6	I always try to avoid minor and major sin.	Alam et al. (2011)
RM_7	I make sure that the food and drink I consumed are halal.	Alam et al. (2011)
RM_8	I often worry about the afterlife.	Khan (2014)
RM_9	I give charity for religious purposes.	Alam et al. (2011)
RM_10	Often, I feel deeply the existence of God.	Khan (2014)
<u>Religiosity for Non- Muslim (RNM)</u>		
RNM_1	I always believe in God.	Stephen et al. (2007)

RNM _2	I thank God for my food and drink.	Stephen et al. (2007)
RNM _3	I regularly go to church or temple.	Stephen et al. (2007)
RNM _4	I am honest all the times.	Stephen et al. (2007)
RNM _5	I care about neighbors and their well beings.	Stephen et al. (2007)
RNM _6	I always advise others to do good and avoid evil.	Stephen et al. (2007)
RNM _7	I avoid food that are forbidden by my religion.	Stephen et al. (2007)
RNM _8	Everything happens to me reminds me of God.	Stephen et al. (2007)
RNM _9	I think about the God all the time.	Stephen et al. (2007)
RNM _10	I cannot make important decisions without God's help.	Stephen et al. (2007)

#### 4.5.3 Operationalization of Perceived Organizational Support (POS)

Numerous studies (e.g. Adebayo, 2005; Eisenberger et al, 1990) have used POS as a construct to amass the data from the respondents. The operationalization of POS was adopted from Eisenberger et al. (1990). From the Table 4.6 ten statements were deployed to examine this construct. The respondents were requested to response on the five-point Likert scale ranging from 1 = “Strongly Disagree” to 5 = “Strongly Agree”. The average score of ten items was computed from the responses to assess the influence of POS.

**Table 4.6: Operationalization of Perceived Organizational Support**

Construct items		Source
<u>Perceived Organizational Support (POS)</u>		
POS _1	My organization cares about my opinions.	Eisenberger et al. (1990)
POS _2	My organization cares about my well-being.	Eisenberger et al. (1990)
POS _3	My organization considers my goals and values	Eisenberger et al. (1990)
POS _4	My organization would forgive an honest mistake on my part.	Eisenberger et al. (1990)
POS _5	If given the opportunity, my organization would take advantage of me.	Eisenberger et al. (1990)
POS _6	My organization shows little concern for me.	Eisenberger et al. (1990)
POS _7	My organization is willing to help me if I need a	Eisenberger et al. (1990)

special favor.

POS _8	My organization values about my contribution to its well-being.	Eisenberger et al. (1990)
POS _9	My organization helps me when I have a problem.	Eisenberger et al. (1990)
POS _10	My organization cares more about making a profit than me.	Eisenberger et al. (1990)

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#### **4.6 Unit of Analysis**

Unit of analysis is considered an important step in research process. According to Zikmund (2000), unit of analysis is the subject of concentration of the researcher. This type of analysis entails individuals, groups, and social interactions. This measure is very imperative to be disclosed before the beginning of the study because the sample size, the data collection procedure and all the construct within conceptual model would be affected (Wong, 2002). The managerial positions (i.e., CEOs, CFOs, Financial Advisory, Managing Directors, Auditors, Accountants and Senior Managers) selected as the main unit of analysis in the current study from the public and private sectors in Pakistan. The individual managers have selected as the unit of analysis. These managerial staffs have been chosen because they have decisional power in their companies. In addition, they can play a substantial role in providing useful financial reporting information regarding fraudulent activities.

#### **4.7 Population and Sample of the Study**

Population is defined as a group of similar units of analysis that is bring together and is made up of classes of variables and is likely to be studied (DeCoster, 2006; Pilot & Hungler, 1999). Population refers a group of individuals sharing common attributes, whereas sample is a subgroup of population through which the researcher wants to produce



generalizations. The present study was based on Pakistani public and private 551 corporations listed at Karachi Stock Exchange (KSE). The list of companies included various categories of business sectors such as banking, manufacturing, health care, agriculture, services, and others. The managerial positions especially finance and accounting managers were selected as the respondents of the present study and have influences in decision making process.

#### **4.7.1 Sample Size**

The determination of sample size is one of the major factors in quantitative research as the improper sample size will affect the quality and correctness of research outcome (Sandelowski, 1995). For example, Krejcie and Morgan (1970) argued that a sample size of 384 respondents would be adequate for a population size exceeding 100,000. A large sample size is generally preferred, and a sample size between 200 and 400 is often recommended and accepted (Hair et al., 2006a). Sekaram (2006) proposed the rule of thumb about the minimum sample size which was number of all items multiply by five. Further, Hair et al. (2014) suggested the minimum sample size determination procedure required to evaluate SEM-PLS path modelling (maximum number of items at a particular latent variable multiply by 10). However, in this study the total number of indicators were seventy-three with five latent variables. Hence, according to 10 times rule,  $13 \times 10 = 130$  represented the minimum number of observations needed to estimate SEM-PLS path modelling. Studies with multiple variables, the sample size is mostly calculated through number of variables multiply by ten which was supported by Hair et al. (2010) and Roscoe (1976). In addition, a rule of thumb about sample size recommended any number above 200 provided enough statistical power for data analysis (Hoe, 2008). Conclusively, in this study, Hair et al. (2014) minimum sample size determination technique was followed.

#### 4.7.2 Sampling Technique

The practice of choosing a small part of population to signify the whole characteristics of population is referred as sampling (Pilot & Hungler, 1999; Wood & Haber, 1998). Random sampling provides a range of selection techniques in which samples are chosen purely by way of chance, but with a known probability sample. Mostly, research in social science and business survey randomly select the survey respondents or sample units by applying sampling technique and has a great importance in survey research design (Lavrakas, 2012). So, this study used random sampling technique to give equal likelihood to individuals in the population to be included as sample (respondent). Random sampling technique was considered the most suitable approach for the present study as the respondents can be effortlessly accessed by this method. In total 400 questionnaires were circulated among the respondents through random sampling to obtain data and 236 questionnaires were received from them. Accordingly, the response rate of returned questionnaires was 59%. Out of the 236 responses, 7 questionnaires were found incomplete which were excluded from the data analysis. Subsequently, making a useable response rate 57%. Babbie (1990) suggested that in the social science studies, 50% is considered an accepted response rate, while at least 60% categorized as good response rate, and a response rate of 70% or more classified as is very good. Table 4.7 exhibits the details of the response rate.

**Table 4.7: Response Rate**

Particulars	Frequency/Rate
Total questionnaires distributed	400
Total questionnaires returned	236
Total questionnaires excluded	07
Total useable questionnaires	229
Total response rate	59%
Total valid response rate	57%

#### **4.8 Pilot Study**

Pilot studies concentrate on the precision of the measurement scale (Johanson & Brooks, 2010). A pilot study was conducted to check whether the instrument is relevant and suitable in understanding the items of questionnaire that would be asked to the respondents. It is beneficial to undertake a pilot study before final survey. A pilot study enables the researchers to acquire recommendations from the respondents for the refinement of the final survey (Xie, 2011). In the pilot study, 30 questionnaires were distributed among the managers of listed companies in Pakistan. Total 28 questionnaires were returned by the respondents with some feedbacks. Then questionnaire was modified according to the feedbacks received from the respondents.

#### **4.9 Data Collection Procedure**

The final version of the self-administered questionnaire was distributed to gather empirical data. The survey was conducted in four major cities: Karachi, Hub, Quetta, and Gwadar of Pakistan. These cities are among the most commercial and business centers of Pakistan. In addition, most of the national and international companies' head offices and their operating units are located in Karachi. The respondents were selected who work in the listed companies at KSE from these cities. The data collection process was begun in February and ended in March 2020 in the same year. All the respondents were accessed during their office timing. Prior conducting the distribution process, the researcher asked permission from the head / managers of each selected companies and explained the purpose of study and data collection. The respondents were also informed that their participation in this study was on voluntary basis. Further, the respondents were kept informed that this study was purely performed for educational purposes and the confidentiality of their responses would be assured. Then, the questionnaires were given to the target respondents. Typically,

the respondents have taken 30 to 40 minutes to fill and return the questionnaires. During this period, the researcher waited in sitting zone. In some cases, the respondents having a busy schedule or urgent work the distributed questionnaires were collected after a week from the respondents.

#### **4.10 Statistical Analysis**

This study applied partial least squares structural equation modelling (PLS-SEM) technique using Smart PLS 3.0 to examine the proposed research framework. The Smart PLS 3.0 version is an analysis software that can be employed to assess complex models with latent variables (Ringle et al., 2005). This study followed the two-steps analytical approach suggested by Anderson and Gerbing (1988) and Hair et al. (2005). First, a confirmatory factor analysis (CFA) was performed to test the constructs validity in the measurement model. Then structural model was assessed to examine the hypothesized relationship between variables.

##### **4.10.1 Partial Least Squares Structural Equation Modeling (PLS-SEM) Analysis**

In present study, PLS-SEM a two steps analysis approach was applied for the data analysis. The concept of PLS-SEM was originally devised by an econometrician Herman Wold in 1970s as a second generation multi constructs tool for the analysis of data (Chin, 1998). In PLS-SEM factor analysis and regression analysis are two important multivariable approaches to analyze the data (Hair et al., 2010). The path modeling of PLS-SEM can be evaluated by two essential models such as the outer model and inner model (Henseler et al., 2009). Recently, PLS-SEM has gained a substantial fame from social science and business disciplines (Hair et al., 2019). The researchers claimed that PLS-SEM put more emphasis on the estimation of structural model (Henseler et al., 2009). Further, PLS-SEM is more appropriate when the researcher aims to predict a complex model with several constructs

(Hair et al., 2019; Henseler et al., 2009). Moreover, a model with small sample size can easily apply PLS-SEM and has the capability to obtain a greater degree of statistical power (Hair et al., 2017). More importantly, PLS-SEM could be applied as statistical tool without considering the assumption of normality of the data (Achjari, 2004; Hair et al., 2019). The above-mentioned logical reasons guided to adapt PLS-SEM as a statistical tool to evaluate the research model.

#### **4.10.2 Measurement Model Assessment**

In PLS-SEM approach, appraising the outer model includes testing the reliability and validity of indicators in terms of convergent and discriminant validity. According to Sekaran and Bougie (2013), reliability is an examination of the internal consistency of the measuring tools whereas validity estimates the accurateness of the established instruments in measuring a specific perception of a study. Based on prior studies, the evaluation of measurement model can be successfully achieved by investigating its indicator reliability, internal consistency, composite reliability, convergent validity, and discriminant validity (Hair et al., 2019; Lewis et al., 2005; Straub et al., 2004).

##### **4.10.2.1 Construct Reliability and Validity**

Conceptually, validity has been categorized into three sub-categories: content, criterion-related and construct validity (Brown, 1996). The concept of construct validity is very well recognized. Construct validity is a test that determines the degree to which it purports to be determining (Cronbach & Meehl, 1955; Polit & Beck, 2012). It is regarded as an important concept in the field of psychology. Generally, scholars developed the construct validity is a measure to theoretically correlate it with others constructs in a predictable manners (Westen & Rosenthal, 2003). The aim of construct validation is to embed a purported measure of a construct in a nomological network, that is, to establish its relation to other variables with

which it should, theoretically, be associated positively, negatively, or practically not at all (Cronbach & Meehl, 1955). It reveals that the test is truly measuring a particular construct it purports its measuring. In addition, the construct validity would measure what the research is actually measuring (Brown, 1996). A construct validity is further subdivided into convergent validity and discriminant validity (Campbell & Fiske, 1959).

#### **4.10.2.2 Convergent Validity**

Convergent validity is a sub-category of construct validity. Convergent validity is defined by Davis (1989, p.327) as “to whether the items, comprising a scale behave as if they are measuring a common underlying construct”. In convergent validity several measures of the same construct are highly correlated with one another. According to Campbell and Fiske (1959) and Gregory (2007), convergent validity is the test having same or similar constructs are highly correlated. Likewise, convergent validity describes the level of high, average or lower scores of a measure comparing the scores with different measure in a comparable construct (Messick, 1995). Straub (1989) stated that the level to which various constructs evaluated distinctly show an association among them. According to Fornell and Larcker (1981) and Hair et al. (2011), the convergent validity of the measurement model in the PLS can be assessed by considering the items reliability (factor loadings), Composite Reliability (CR) and the Average Variance Extracted (AVE). The convergent validity is achieved when all the measures are statistically significant in a measurement model.

##### **4.10.2.2.1 Items / Indicators Reliability**

Indicator reliability is evaluated by examining factor loadings of each items with their respective construct (Barclay et al., 1995). Conventionally, the recommended factor loadings was 0.708 (Barclay et al., 1995; Fornell & Larcker, 1981). Later, some scholars argued that 0.5 of factor loadings can be considered satisfactory as in the same construct

some factors are highly loaded (Chin, 1998; Keil et al., 2000). According to Hair et al. (1998), item loading procedure can be followed by sample size. Further, it is suggested that loadings less than 0.5 should be eliminated (Chin, 1998). In addition, low items loadings may cause some serious problems in analysis. The significance of the indicator loadings can be examined using a resampling method, such as bootstrapping or jackknifing. Taking into consideration PLS characteristics of consistency while eliminating an indicator someone should take careful measures. In fact, an item of a construct can only be eliminated if it is sharing a very low proportion of consistency and its removal raises the composite reliability substantially (Henseler et al., 2009).

#### **4.10.2.2.2 Composite Reliability (CR)**

In structural model using various observed constructs with one latent construct always increases concerns regarding items reliability as well as random error (Achjari, 2004). Composite reliability is also known as internal consistency (Fornell & Larcker, 1981). It is mostly measured as reliability of construct in structural equation modeling. Composite reliability is measure of internal consistency in scale items like Cronbach's alpha (Netemeyer et al., 2004). CR is a modern approach to measure scale reliability. In reflective model, CR is preferable than Cronbach's alpha as a test of reliability. However, this study considered both reliability measures. The explanation of CR value is identical to Cronbach's alpha which is equal to 0.7 (Barclay et al., 1995). The cut-off value of CR is still debatable. Different researchers have suggested different values. According to Netemeyer et al. (2004), the value of CR should be 0.80. In addition, Jöreskog (1971) stated that the higher values of CR show higher degree of reliability. Further, suggested that the values from 0.70 to 0.90 is satisfactory. Furthermore, Fornell and Larcker (1981) and Hair and Lukas (2014) recommended that the value of CR should be equal or greater than 0.7.

The value of composite reliability in determining internal consistency for the outer model more than 0.9 is deemed undesirable (Hair et al., 2017).

#### **4.10.2.2.3 Average Variance Extracted (AVE)**

Average Variance Extracted (AVE) estimates the degree of variation that is covered by a latent construct in association to the degree of variation because of measurement error (Chin, 1998; Fornell & Larcker, 1981; Ramayah et al., 2013). In measurement model to achieve score of convergent validity, the value of AVE should be equal or greater than 0.5 (Fornell & Larcker, 1981). The value of AVE less than 0.5 is problematic and the construct's reliability is doubtful (Fornell & Larcker, 1981). The AVE is considered as conventional measure to evaluate reliability for each construct in the same model.

#### **4.10.2.3 Discriminant Validity**

Discriminant validity measures the level of variance of specific constructs in the same model actually unrelated from each other (Barclay et al., 1995). It examines the level of variances among the intersecting constructs (Hair & Lukas, 2014). Therefore, constructs should have more variance with other constructs and measurement error variance supposed to be very low as variance explained by other constructs (Fornell & Larcker, 1981). Further, discriminant validity verifies that the measure of a construct is empirically exclusive and discloses that other measures in the same structural model are distinct (Hair et al. 2010). Theoretically, discriminant validity needs that “a test not correlate too highly with measures from which it is supposed to differ” (Campbell, 1960, p.548). In the SEM studies, the evaluation of discriminant validity is considered an important step (Shah & Goldstein, 2006; Shook et al, 2004). In SEM discriminant validity is examined through Fornell & Larcke criterion, Heterotrait-Monotrait (HTMT) ratio and cross loadings of indicators. However, this study focuses on the Fornell & Larcker criterion and HTMT ratio.



#### **4.10.2.3.1 Fornell and Larcker Criterion**

Fornell and Larcker criterion is a conventional measure for discriminant validity. In this method, there is a comparison of the square root of the AVE with the association of latent constructs (Fornell & Larcker, 1981; Hair et al., 2014). A construct must better explain its item variances as compared with the variances of other construct. Thus, the square root of AVE must be higher than the correlations with other latent constructs in the same model (Hair et al., 2014).

#### **4.10.2.3.2 Heterotrait-Monotrait (HTMT) Ratio**

The second important metric to evaluate discriminant validity is HTMT ratio of correlation. Henseler et al. (2015) proposed that the HTMT is a superior measure to assess the discriminant validity as compared with other such as the cross loadings of items and Fornell & Larcker criterion. The threshold value of HTMT has been proposed differently by numerous researchers. According to Kline (2011), it should be equal to 0.85. Other suggested a value of 0.90 (Gold et al., 2001; Hair et al., 2014; Henseler et al., 2015). If the value of HTMT is greater than 0.90, it specifies that there is deficiency of discriminant validity (Henseler et al., 2015).

#### **4.10.3 Structural Model**

Structural model is an indispensable step in PLS-SEM. Once the evaluation of measurement model is assessed, various criteria need to be filled to examine the theoretical framework within structural model. When assessing the inner model, the path coefficient, coefficient of determination ( $R^2$ ), effect size ( $f^2$ ), and predictive relevance ( $Q^2$ ) measures should be considered (Chin, 1998; Hair & Hult, 2016). These standard criteria help to achieve the quality of model in predicting the endogenous variables.

#### **4.10.3.1 Path Coefficient ( $\beta$ )**

Path coefficient indicates the correlation coefficient ( $\beta$ ) between the exogenous and endogenous constructs through direct and indirect measure (Wright, 1921). The values of  $\beta$  are ranged from +1 to -1. The +1 always implies to a strong positive association. On the hand, -1 shows a strong negative association between the variables. According to Helm et al. (2009), values near to +1 or -1 are significant. Further, it indicates the structural relationships between latent constructs. The path coefficient must be greater than 0.1 to have a significant impact between the hypothesized relationship and at 5% significance level (Huber et al., 2007). A path coefficient would be significant if t-value is greater than 1.96. In PLS bootstrapping method was run to obtain the values of path coefficient.

#### **4.10.3.2 Coefficient of Determination ( $R^2$ )**

The  $R^2$  is a vibrant metric to assess the inner model. The explanation of R-square is alike of conventional multiple regression (Chin, 1998b). The  $R^2$  measures the degree of variance of endogenous construct that is explained by the variance of other exogeneous constructs in the same relationship. If the value of  $R^2$  is about 67%, is supposed to be substantial, while the value of  $R^2$  is near 33% is considered average and the value of  $R^2$  is equal or higher than 19% is weak (Chin, 1998).  $R^2$  is developed in PLS to measure the variation in latent variable that is defined by structural model (Barclay et al., 1995). In order to estimate  $R^2$ , the degree of variance in the endogenous variable that is explained by independent variables were assessed in the model.

#### **4.10.3.3 Predictive Relevance ( $Q^2$ )**

The  $Q^2$  standardized measure was developed to estimate the quality of the PLS path modelling. The  $Q^2$  is computed by means of blindfolding method and cross-validation. According to Fornell and Cha (1994), the predictive relevance of the model should be

above than 0, otherwise it is unsatisfactory. Chin (1998) recommended three important assumptions to assess the predictive relevance of a model. First, if the Q-square is equal to 2%, it shows model has a minor predictive relevance. Second, if the  $Q^2$  is 15%, then the model has an average relevance. Third, if  $Q^2$  is equal to 35%, it indicates model has a strong quality relevance.

#### 4.10.3.4 Effect Size ( $f^2$ )

Finally, the effect size analysis was carried on determining the effects of various exogenous constructs on an endogenous construct. According to Cohen (1988), the  $f^2$  was employed to estimate the variation in R-square in order to know whether there is a practical influence of latent independent variable on a certain dependent variable or not. The effect size can be computed by using formula suggested by Vinzi (2010) as follow:

$$f^2 = \frac{R^2_{included} - R^2_{excluded}}{1 - R^2_{included}}$$

where  $R^2_{included}$  and  $R^2_{excluded}$  are R-squares defined for dependent constructs when the predictor latent variable is applied or eliminated from the structural model. In the model assessing the influence of  $f^2$ , Cohen (1988) recommended that the effect is considered high where  $f^2$  is equal to 35%, it is normal when  $f^2$  is 15% and it is assumed low where  $f^2$  is 3%.

#### 4.11 Summary

This chapter has explained the research methodology and the data analysis technique. The first section described the research design, survey instruments and operationalization of the constructs that elaborated scaling methods and structure. Similarly, the second section was about the unit analysis, population, and sampling technique, and followed by the pilot study

and data collection procedure. The final section explored the statistical analysis with the comprehensive explanation of the measurement and structural models.

Universiti Malaya

## CHAPTER 5

### DATA ANALYSIS AND RESULTS

#### 5.1 Introduction

This chapter consists of various sections. The primary findings and results of the study are discussed in this chapter. It begins with a brief discussion of data screening and the demographic characteristics of respondents. Then, the implementation of the pilot study is reviewed. The findings of the pilot study are discussed in this regard to make changes in the final research instrument. This is followed by the full study results which explain the evaluation of outer and inner model. More specially, the measurement model is examined through confirmatory factor analysis to test the reliability and validity of survey instrument. Finally, the structural model is assessed by considering various metrics such as path coefficient ( $\beta$ ), t-values, effect size ( $f^2$ ), predictive relevance ( $Q^2$ ) and the coefficient of determination ( $R^2$ ).

#### 5.2 Pilot Study

A pilot study was performed to ascertain the lucidity and steadfastness of the questionnaire and to test the internal consistency of the scales. It is a minor-magnitude investigation to be further employed on a higher scale, if the pilot study confirmed that the procedures and methods can be performed in preparation of the major study (Pilot & Hungler, 1999). Similarly, a pilot study could also be regarded as a feasibility study. A feasibility study provides possible basis before the final study can be carried out. According to Fishbein and Ajzen (2010), the questionnaire should be finalized after a complete pilot testing and recommended a sample size for a pilot study to 25 respondents. The results of the pilot study would be used to revise the questionnaire items for precision and understandability as well as to run Confirmatory Factor Analysis (CFA) to test for appropriate construct

validity, both convergent validity and discriminate validity by using PLS-SEM. The results of the pilot study will also be analyzed within SEM to determine instruments reliability as measured by composite validity.

Keeping in view the above reasons, a pilot study was executed of the present questionnaire in order to assure the appropriateness and precision of the questionnaire. Prior studies suggested that a range of pilot sample should be from 10 to 40 (e.g. Browne, 1995; Kieser & Wassmer, 1996; Saunders, 2007). In this pilot study, thirty questionnaires were distributed among the respondents through random sampling. All the questionnaires were received and out of 30 questionnaires, 28 were successfully completed and used for further analysis. The respondents were requested to give any feedback regarding the completion of survey. A few beneficial feedbacks were received including:

- The questionnaire is lengthy, it takes long time to read each question carefully and select the answer.
- Over all statements are relevant, help to achieve the objective of the study.
- Some statements are repeated.
- Try to use more simple wordings (English) so that the respondents could understand each statement easily.

In developing the final questionnaire all the comments received from the respondents were attended. In general, the overall feedback was positive, and the questionnaire was considered straightforward, clear, and easy to complete. Finally, a reliability coefficient (Cronbach's Alpha) analysis was performed through SPSS version 26.0 to assure the reliability of all items in the questionnaire. The reliability of the questionnaire was assured by determining the internal consistency of the latent constructs through Cronbach Alpha. In

the questionnaire, all the indicators items disclosed the essential level of internal consistency reliability. The following table summarizes the results of reliability analysis.

**Table 5.1: Results of Pilot Study**

S No	Variables	Items	Cronbach's Alpha
1	Attitude toward behavior	6	0.760
2	Subjective Norms	13	0.771
3	Perceived Behavioral Control	13	0.840
4	Behavioral Intention	17	0.839
5	Religiosity	21	0.875
6	Perceived Organizational Support	10	0.794

### 5.3 Full Study

In the following sections, the results of the measurement model and the structural model will be summarized.

#### 5.3.1 Data Screening

The process of data analysis was commenced with data screening method. In this procedure the collected data from the survey was entered into SPSS version 26 for cleaning and more analysis. According to Creswell (2005), the data can be cleaned by considering frequency distribution, histogram, and plots to graphically assess the missing figures and other typographical errors. No man-made errors were seen while entering that data. Then the SPSS saved data was converted into CSV document for importing the data into Smart PLS for further analysis.

### 5.3.2 Demographic Profile of Respondents

The SPSS version 26 was used to analyze the demographic characteristics of the respondents. Table 5.2 exhibited the demographic profile of 229 valid respondents. The male respondents were 84.3%, where the females were 15.7%. The ratio of female respondents was very low because Pakistan is patriarchal society. In total 75.5% of the respondents were married and the rest of 24.5% were single. In terms of the age of respondents, between 20-25 years old were 19.2%, between 25-30 years old were 1.7%, between 30-35 years old were 45.4%, 35-40 years old were 18.8%, and the remaining 14.8% were between 40-45 years old. As per the level of education, 22.7% of respondents were having bachelor's degrees, 64.2% have done masters and 13.1% had completed their MPhil or master's degree. The majority 88.6% of the respondents were full-time employees and 11.4% were part-time employees. Further, the demographic analysis of the position of employees in the organization indicated that 2.6% of the respondents were CEOs, 3.5% were CFOs, 6.1% were managing directors, 8.7% were senior managers, 35.8% were managers which were remained the highest numbers of respondents, 7% were finance director, 14.4% of the respondents were finance managers, 6.1%, 10.5% and 1.7% from the organizational positions were senior accountants, accountants and accounting managers, 2.6% were auditors and the financial advisors with the lowest percentage of 0.9%. In terms of industry 22.3% of the respondents were working in manufacturing, 16.6% from government offices, 6.1% were serving in educational institutions and financial services respectively, 28.8% were providing banking services, 7% from health care centers and the remaining 13.1 % from mining or energy sector. In addition, 2.6% of the respondents had less than one-year experience, 46.7% had working experience between 1-3 years, 39.3% had level of experience ranged from 4-5 years, 10.5% had experiences between 6-10 years



and the 0.9% had been working more than 10 years in their respective companies. From the religion perspective, the total number of respondents were Muslims. Finally, analyzing the demography of the respondents found that more than 50% of them studied the course of ethics in college level.

**Table 5.2: Profile of Respondents**

Demographic Variables	Frequency	Percentage
<b>Gender</b>		
Male	193	84.3%
Female	36	15.7%
<b>Age</b>		
20 – 25 years old	44	19.2%
25 – 30 years old	4	1.7%
30 – 35 years old	104	45.4%
35 – 40 years old	43	18.8%
40 – 45 years old	34	14.8%
<b>Marital Status</b>		
Married	173	75.5%
Single	56	24.5
<b>Highest Level of Education</b>		
Bachelors	52	22.7%
Masters	147	64.2%
MPhil / MS	30	13.1%
<b>Accounting Professional Qualification</b>		
CA	14	6.1%
ACCA	18	7.8%
ACA	4	1.7%
CMA	32	13.9
<b>Employment Status</b>		
Full-time employee	203	88.6%
Part-time	26	11.4%

**Organizational Position**

Chief Executive Officer	6	2.6%
Chief Financial Officer	8	3.5%
Managing Director	14	6.1%
Senior Manager	20	8.7%
Manager	82	35.8%
Finance Director	16	7.0%
Finance Manager	33	14.4%
Senior Accountant	14	6.1%
Accountant	24	10.5%
Accounting Manager	4	1.7%
Auditor	6	2.6%
Financial Advisor	2	0.9%

**Type of Industry**

Manufacturing	51	22.3%
Education	14	6.1%
Financial Services	14	6.1%
Banking	66	28.8%
Health Care	16	7.0%
Mining or energy	30	13.1%
Other	38	16.6%

**Level of Experience**

Less than one year	6	2.6%
1 – 3 years	107	46.7%
4 – 5 years	90	39.3%
6 – 10 years	24	10.5%
More than 10 years	2	0.9%

**Level of Monthly Income**

Less than one Rs. 40000	18	7.9%
Rs. 40000 – Rs. 50000	32	14%
Rs. 40000 – Rs. 50000	32	14%
Rs. 60000 – Rs. 70000	52	22.7%

Rs. 70000 – Rs. 80000	6	2.6%
Rs. 80000 – Rs. 90000	20	8.7%
Rs. 90000 – Rs. 100000	23	10%
More than Rs. 100000	26	11.4%
<b>Religion</b>		
Islam	229	100%
<b>Course of Ethics</b>		
Yes	143	62.4%
No	86	37.5%

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### 5.3.3 Assessment of Reflective Versus Formative

Generally, PLS-SEM is completed in a two- step process such as (1) the assessment of the measurement (outer) model and (2) the assessment of the structural (inner) model (Chin, 1998; Henseler et al., 2009; Urbach & Ahlemann, 2010; Vinzi et al., 2010). In this process, the initial step is to examine the validation of outer models (Tenenhaus et al., 2005; Urbach & Ahlemann, 2010). Specifically, more emphasis should be on the assessment of reliability and validity of outer model that is based on various sets of evaluation standards. In order to assess inner model, it is only meaningful when the outer model provides adequate evidence of reliability and validity (Chin, 1998b; Henseler et al., 2009). An outer model describes the relationship of measures along with fundamental latent constructs (Urbach & Ahlemann, 2010). A measurement model may be reflective or formative (Bollen & Lennox, 1991; Hair et al., 2014). According to Hair et al. (1998), the outer model efforts to evaluate the hypothetical constructs that are precisely assessed by the observed variables. Both reflective as well as formative models are utilizing latent variables to reveals the design of the model. The outer model is appropriate for any item that appear as causal indicators. Researchers should identify the differentiations between formative and reflective models

while examining the reliability and validity of measurement model (Urbach & Ahlemann, 2010; Vinzi et al., 2010). In reflective measure arrows pointing from latent construct to the observed indicators. On the other hand, in formative measure arrows direct from measured items to latent constructs (Bollen & Lennox, 1991; Hair et al., 2014). When a reflective model is erroneously designed as formative, and vice versa is called as model misspecification. The roots of reflective model has stemmed from the classical test theory (Bollen & Lennox, 1991). The reflective concept is dominated in the field of management sciences and psychological while the formative concept is frequently used in sociology and economics (Coltman et al., 2008). The reflective indicators can be examined through items reliability, composite reliability, convergent validity, and discriminant validity (Hair et al., 2011; Ringle et al., 2010). According to Hair et al. (2011), formative measures can be evaluated by the significance weights of all items through the method of bootstrapping. In addition, all formative constructs ought to be verified by checking multicollinearity (Chin, 1998). The selection of a reflective against a formative measure is entirely relies on the relationship between the indicators and latent constructs (Bollen & Lennox, 1991). The need to apply reflective or formative indicators is developed by the essence of constructs in the conceptual model. Some researchers suggested that the theoretical considerations are essential in selecting formative or reflective measure of a specific construct (Coltman et al., 2008; Jarvis et al., 2003). While others have claimed the significance of both theoretical as well as empirical deliberations for developing and validating an applicable measurement model (Coltman et al., 2008; Diamantopoulos, 2006).

It is important to distinguish among different types of construct. As literature suggests that the formative and reflective are two different measures and should be treated differently in the model (Henseler et al., 2009). The reflective indicators are suitable to assess the

reliability and validity by performing confirmatory factor analysis (CFA), whereas in formative measure the reliability for the indicators is inappropriate, therefore, only validity of the constructs is tested (Henseler et al., 2009). In this study, all the constructs used multi-items to be measured. Thus, it is imperative to properly classify the indicators as reflective or formative before examining measurement model. The essence of conceptual model and constructs are reflective in the present study. Therefore, the subsequent section describes the assessment of reflective measurement model.

#### **5.3.4 Assessment of Reflective Measurement Model**

The analysis of SEM-PLS is originated with the measurement model. The evaluation of outer model is considered as an important step in SEM analysis (Hair et al., 2013). The reliability of the theoretically explained constructs can be established through the outer model. Henseler et al. (2009) advocated that the measurement model can be judged by considering the values of convergent validity, composite reliability (CR), average variance extracted (AVE) and discriminant validity. Primarily, in this process a construct reliability and validity test was conducted with the support of Smart PLS 3.0 version (Ringle et al., 2015) to ensure the measurement model.

##### **5.3.4.1 Construct Validity**

Construct validity states that a test intended to determine a certain construct (e.g., attitude) is in fact computing that construct. According to Kline (2011), the convergent and discriminant validity examine the measures against each other rather than against an external standard. The convergent and discriminant validity are the measures through which construct validity can be ascertained (Hair et al, 2011).

#### **5.3.4.1.1 Convergent Validity**

Convergent validity refers to the degree the latent constructs congregate to define the variation of their indicators (Hamid et al., 2017; Hair et al., 1998). According to Hair et al. (2014), convergent validity measures the extent to which a construct positively links with other measures of similar constructs. Convergent validity can be reached through factor loadings, composite reliability (CR), and average variance extracted (AVE) (Hair et al., 2011). To achieve convergent validity of specific constructs, it is important to examine the factor loadings of each indicators. According to Hair et al. (2011), factor loadings should be higher than 0.5 which is considered significant to obtain a reasonable convergent validity. Prior studies have recommended that higher than 0.60 should be threshold value for factor loadings (e.g., Hair et al., 2011; Chin et al., 1997). A recent study by Hair et al. (2019) recommended that the factor loadings should be higher 0.708 which explain more construct reliability. As loadings more than or equal 0.708 suggest that 50 per cent of indicator's variance is explained by construct, thus providing satisfactory item reliability. The higher factor loadings show that items are not mutually exclusive. Initially, there were sixty-three items for six constructs. Some items were deleted to strengthen composite reliability value. Out of total six items removed from Subjective Norms (SN\_3, SN\_4, SN\_5, SN\_9, SN\_11, SN\_12), seven items (PBC\_2, PBC\_5, PBC\_6, PBC\_10, PBC\_11, PBC\_12, PBC\_13) from Perceived Behavioral Control, six items (BI\_3, BI\_4, BI\_7, BI\_8, BI\_11, BI\_12) from Behavioral Intention, and five items (POS\_1, POS\_2, POS\_3, POS\_7, POS\_9) from Perceived Organizational Support. The indicators elimination technique was performed as proposed by Hair et al. (2011). According to this procedure factor loadings from 0.40 to 0.70 should be eliminated from the measurement process if the removal of indicators would

enhance the value of composite reliability in the reflective measurements. Therefore, after the elimination, factor loadings have achieved the suggested threshold values.

It is observed from Table 5.3 that all the factors measuring a specific construct are greater than 0.50 except PBC\_4, BI\_9, and BI\_10 which are very closed to 0.50. These items were kept in the model. However, an indicator outer loading is between 0.4 to 0.7 should be remained in measurement if the removal of indicators has no significant influence on composite reliability (Hair et al., 2014) and only be removed when they negatively affect the AVE of their constructs (Hair et al., 2017). Further, suggested that an indicator with loading less than 0.4, must be eliminated. According to George and Mallery (2003), the value of Cronbach's Alpha should be greater than 0.7 and ( $\alpha > 0.9$ ) is considered excellent. The results from Table 5.3 show that all constructs exceeded 0.7, indicating that all constructs are reliable.

The next step of convergent validity is examining internal consistency reliability which can be obtained through composite reliability. It is believed that the higher values show higher degree of reliability. The value of composite reliability should be between 0.70 to 0.90 (Hair et al., 2019). It is observed from Table 5.3, all the CR values are within the range except attitude, subjective norms, and religiosity which are slightly higher than the recommended range as higher values show that all the items are assessing the similar phenomenon. The values of these constructs are higher than level of threshold 0.90 but lower than 0.95. As some researchers argued that a value of CR equal to 0.95 and higher are problematic which minimize construct reliability (Diamantopoulos et al., 2012; Drolet & Morrison, 2001). They were retained in the model with same value because they did not create any obstacle to obtain convergent validity. In addition, Cronbach's alpha is a supplementary measurement to assess the construct's reliability that considers similar

benchmarks but generates lower values as compare with composite reliability. It is noticed from Table 5.3; the Cronbach's alpha values are lower than composite reliability's values of the constructs, respectively. Hence, help to establish constructs reliability in the present study.

Moreover, the convergent validity is to achieve average variance extracted (AVE) for all indicators on each construct. AVE is examined to assess the level of convergent validity of each construct level. An acceptable value for AVE, should be equal to 0.50 and higher (Hair et al., 1998; Hair et al., 2019; Hamid et al., 2017). This signifies that the constructs explain more than 50 per cent of variance of their indicators. From Table 5.3, it is observed that AVE for all constructs is higher than the minimum requirement. Thus, convergent validity is established.

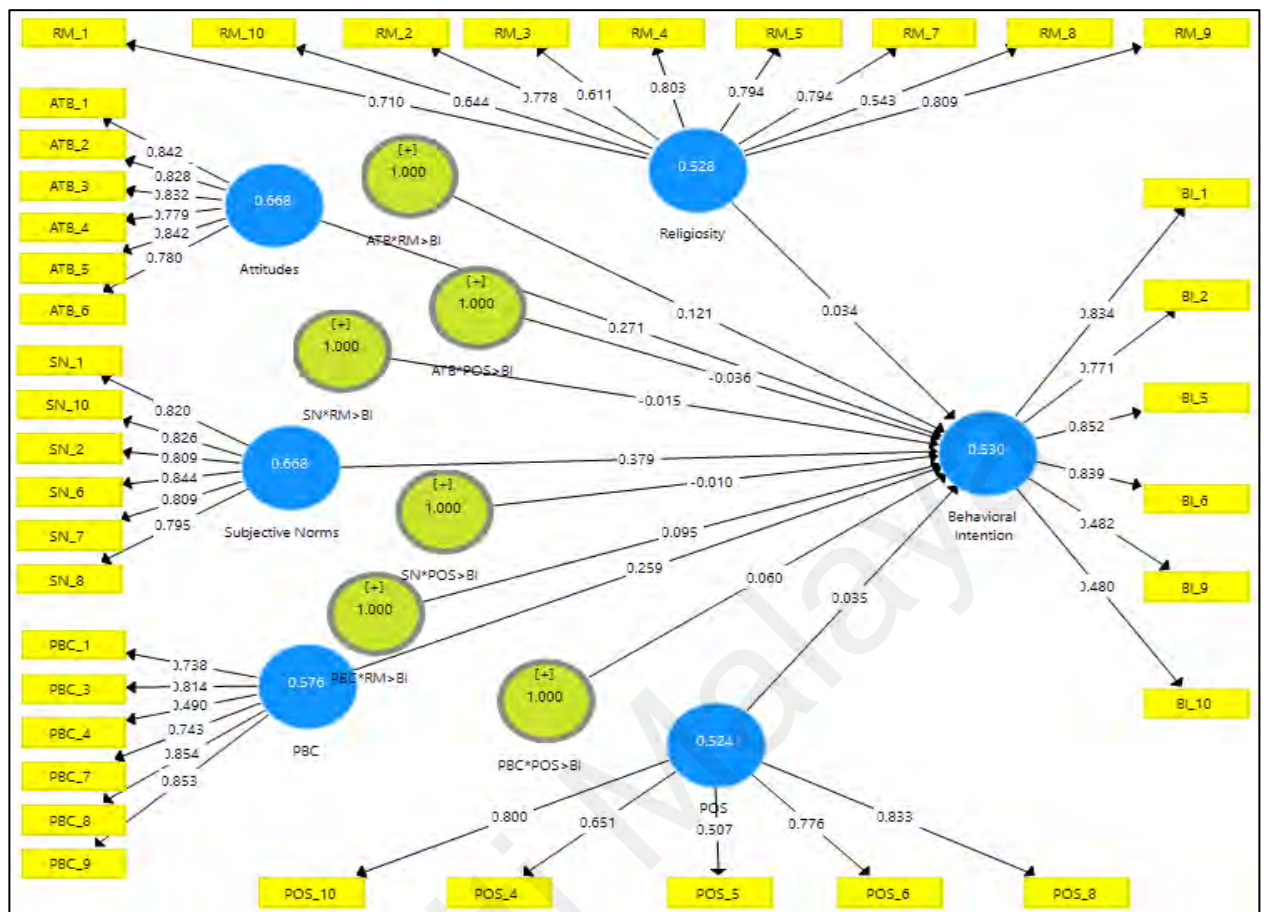
**Table 5.3: Internal Consistency and Validity of Constructs**

Constructs	Items	Loadings	Cronbach's Alpha	CR	AVE
Attitude	ATB_1	0.842	0.902	0.924	0.668
	ATB_2	0.828			
	ATB_3	0.812			
	ATB_4	0.779			
	ATB_5	0.842			
	ATB_6	0.780			
Subjective Norms	SN_1	0.820	0.901	0.924	0.668
	SN_2	0.809			
	SN_6	0.844			
	SN_7	0.809			
	SN_8	0.795			
	SN_10	0.826			
Perceived Behavioral Control	PBC_1	0.738	0.845	0.888	0.576



	PBC_3	0.814			
	PBC_4	0.490			
	PBC_7	0.743			
	PBC_8	0.854			
	PBC_9	0.853			
Behavioral Intention	BI_1	0.834	0.820	0.865	0.530
	BI_2	0.771			
	BI_5	0.852			
	BI_6	0.839			
	BI_9	0.482			
	BI_10	0.480			
Religiosity	RM_1	0.710	0.890	0.908	0.528
	RM_2	0.778			
	RM_3	0.611			
	RM_4	0.803			
	RM_5	0.794			
	RM_7	0.794			
	RM_8	0.543			
	RM_9	0.809			
	RM_10	0.644			
Perceived Organizational Support	POS_4	0.651	0.779	0.842	0.524
	POS_5	0.507			
	POS_6	0.776			
	POS_8	0.833			
	POS_10	0.800			

In summary, Table 5.3, exhibits the values of the factor loadings, Cronbach's alpha, CR and AVE and all the values are within the required range. Therefore, in this study measurement model was achieved.



**Figure 5.1: The Measurement Model**

#### 5.3.4.1.2 Discriminant Validity

The next step of construct validity is to establish discriminant validity among the constructs. Discriminant validity metric is considered essential for investigating relation between latent constructs (Henseler et al., 2009). Discriminant validity implies to the extent that a construct measure in a structural equation model variant from another construct (Hamid et al., 2017). It is empirically tested, based on correlation and the correlation should be very low among variables (Hair et al., 1998). Discriminant validity can be assessed through cross loadings of indicators, the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio of correlation (HTMT). However, this study focused on the Fornell-Larcker criterion and HTMT to assess the discriminant validity.

#### 5.3.4.1.2.1 The Fornell-Larcker Criterion

Fornell and Larcker (1981) suggested a valid discriminant is established when a latent construct has higher variance in its association with other constructs in the identical structural model. To content this prerequisite, each latent variable's average variance extract (AVE) should be linked with its square correlations with other constructs in the model. A hypothesized structural model is supposed to have a strong discriminant validity when the correlation among the constructs is lower than the square root of AVE.

**Table 5.4: The Fornell-Larcker Criterion**

	Attitude	Subjective Norms	PBC	Behavioral Intention	Religiosity	POS
Attitude	<b>0.817</b>					
Subjective Norms	0.443	<b>0.817</b>				
PBC	0.478	0.348	<b>0.759</b>			
Behavioral Intention	0.584	0.619	0.534	<b>0.728</b>		
Religiosity	0.083	0.083	0.186	0.312	<b>0.727</b>	
POS	0.159	0.215	0.142	0.238	0.143	<b>0.724</b>

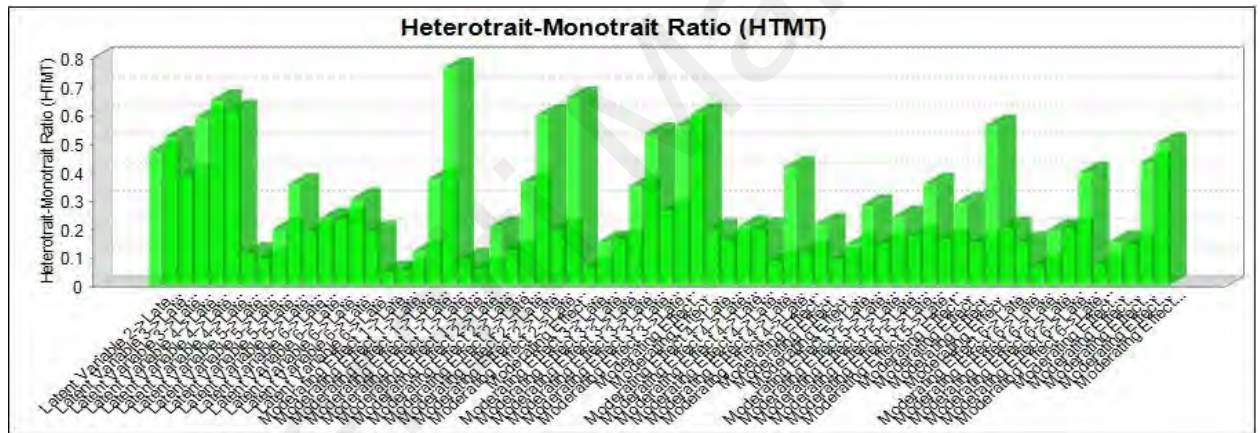
It is summarized in Table 5.4; all the diagonal values (square root of AVE) are higher than the correlations in their respective rows and columns. Thus, the measurement model established discriminant validity.

#### 5.3.4.1.2.2 The Heterotrait-Monotrait Ratio of Correlation (HTMT)

HTMT is a new approach to measure discriminant validity in variance-based SEM (Henseler et al., 2015). Kline (2011) proposed a threshold of 0.85 for HTMT criterion. In addition, Henseler et al. (2015) suggested that the cut-off value of HTMT should be less than 0.90.

**Table 5.5: The HTMT Criterion**

	Attitude	Subjective Norms	PBC	Behavioral Intention	Religiosity	POS
Attitude						
Subjective Norms	0.475					
PBC	0.525	0.391				
Behavioral Intention	0.595	0.654	0.618			
Religiosity	0.115	0.096	0.203	0.360		
POS	0.194	0.238	0.237	0.307	0.193	

**Figure 5.2: The HTMT Criterion Chart**

From the above Table 5.5 and figure 5.2, it is obvious that all the values are within prescribed threshold. Thus, discriminant validity is accomplished through HTMT criterion.

Overall, all the tests of reliability and validity satisfied the requirements of measurement model and additionally, proposing that the metrics employed to determine constructs are effective and conducive to be applied to assess the parameters in the inner model.

### 5.3.5 Structural Model Assessment

Afterward the appraisal of the measurement model, the subsequent step is the evaluation of inner model to test the hypothesized relationship between the constructs. First, a bootstrapping approach was applied to assess the relationships of path coefficient ( $\beta$ ) and obtained t-values to verify their significance level. Likewise, effect size ( $f^2$ ) and predictive relevance ( $Q^2$ ) were assessed. Moreover, the coefficient of determination ( $R^2$ ) was inspected to obtain the amount of variance in the endogenous variable. A 5000 bootstrapped samples from the original 229 cases was run through Smart PLS version 3.0 (Ringle et al., 2015) to achieve the level of significance for the regression by considering both the direct and moderating effects of model.

#### 5.3.5.1 Direct Relationship

This research has three direct hypotheses ( $H_1$ ,  $H_2$ ,  $H_3$ ) as summarized in Table 5.6. The hypotheses were verified through path coefficient and t-values. In addition, coefficient of determination ( $R^2$ ) and predictive relevance ( $Q^2$ ) were assessed. All the direct hypotheses were supported as the p-values are less than 0.05.

**Table 5.6: Results of Hypotheses Testing (Direct Relationship)**

Hypotheses	Path Coefficient	Standard Deviation	T-Statistics	P Value	Decision
$H_1$ ATB > BI	0.271	0.061	4.408	0.000	Supported
$H_2$ SN > BI	0.379	0.050	7.567	0.000	Supported
$H_3$ PBC > BI	0.259	0.059	4.365	0.000	Supported

The result of  $H_1$  ( $\beta = 0.271$ ,  $t = 4.408$ ,  $p < 0.05$ ) exhibited that hypothesis  $H_1$  is supported which showed attitude towards behavior has a significant impact on behavioral intention. Similarly,  $H_2$  ( $\beta = 0.379$ ,  $t = 7.567$ ,  $p < 0.05$ ) and  $H_3$  ( $\beta = 0.259$ ,  $t = 4.365$ ,  $p < 0.05$ ) are also

supported as the results disclosed that the subjective norms and PBC have a significant impact on behavioral intention.

### 5.3.5.2 Moderating Relationship

The moderating effects of religiosity and perceived organizational support (POS) in the relationships between TPB related measures: attitudes, subjective norms, perceived behavioral control and endogenous construct (behavioral intention) were assessed through bootstrapping and reported in the Table 5.7. P-values are more than 0.05. Therefore, the moderating effects are found insignificant.

**Table 5.7: Results of Hypotheses Testing (Indirect Relationship)**

Hypotheses	Path Coefficient	Standard Deviation	T Statistics	P-Value	Decision
H <sub>4</sub> ATB*R > BI	0.121	0.092	1.315	0.189	Not supported
H <sub>5</sub> SN*R > BI	- 0.015	0.082	0.186	0.853	Not supported
H <sub>6</sub> PBC*R > BI	0.095	0.129	0.742	0.458	Not supported
H <sub>7</sub> ATB*POS > BI	0.036	0.059	0.614	0.539	Not supported
H <sub>8</sub> SN*POS > BI	- 0.010	0.052	0.184	0.854	Not supported
H <sub>9</sub> PBC*POS > BI	0.060	0.066	0.821	0.357	Not supported

The findings of all six moderating hypotheses were found insignificant and can be seen from Table 5.7, P-values are more than 0.05. The H<sub>4</sub> ( $\beta = 0.121$ ,  $t = 1.315$ ,  $p > 0.05$ ), H<sub>5</sub> ( $\beta = - 0.015$ ,  $t = 0.186$ ,  $p > 0.05$ ) and H<sub>6</sub> ( $\beta = 0.095$ ,  $t = 0.742$ ,  $p > 0.05$ ) are not significant. Similarly, H<sub>7</sub> ( $\beta = 0.036$ ,  $t = 0.614$ ,  $p > 0.05$ ), H<sub>8</sub> ( $\beta = - 0.010$ ,  $t = 0.184$ ,  $p > 0.05$ ) and H<sub>9</sub> ( $\beta$

= 0.060,  $t = 0.921$ ,  $p > 0.05$ ) are found insignificant. Hence, the results show that there were no moderating effects of religiosity and perceived organizational support (POS) in the relationship between attitudes, subjective norms, perceived behavioral control and behavioral intention.

#### 5.3.5.3 Coefficient of Determination ( $R^2$ )

From Table 5.8, it can be seen the value of  $R^2$  is 62.8%. It implies that when all the latent constructs are mutually having the propensity of influencing 62.8% change in the endogenous variable (Behavioral Intention). The  $R^2$  showed that all the constructs in the model explain 62.8 percent of managers' intention.

**Table 5.8: R Square ( $R^2$ ) Value**

Latent Variable	Variance Explained
Behavioral Intention	62.8%

#### 5.3.5.4 Predictive Relevance ( $Q^2$ )

Finally, blindfolding analysis was performed to achieve the value of predictive relevance ( $Q^2$ ), that is exhibited in the following Table 5.9 which is more than the zero. According to Chin (1998) and Henseler et al. (2009), the value of predictive relevance ( $Q^2$ ) should be greater than zero to consider is a predictive model.

**Table 5.9: Predictive Relevance ( $Q^2$ ) Value**

Latent Variable	$Q^2$
Behavioral Intention	0.312

#### **5.4 Summary**

This chapter has illustrated the analysis of collected data and the results of the study. First, the reliability and validity of instruments were evaluated through various statistical measures. In term of internal consistency, all constructs have satisfactory composite reliability scores and loadings of all items within the recommended range. The outer model also showed reasonable convergent and discriminant validity through AVE values within suggested thresholds. Then, the structural model was assessed to statistically test the direct relationships and moderating effects through bootstrapping by applying SEM-PLS analysis. The validation of structural model showed satisfactory outcomes. Further, the values of Coefficient of Determination ( $R^2$ ) and predictive relevance ( $Q^2$ ) have found satisfactory.



## CHAPTER 6

### DISCUSSION

#### 6.1 Introduction

This chapter expands discussion on findings of the present study. The discussion begins with the elaboration of the results of the direct relationships of hypotheses. Then continue to explain the moderation relationships between these constructs. Finally, compare its findings with other studies to provide some logical reasons.

#### 6.2 Discussion

Concerned with the increasing fraudulent activities of corporate managers in developing countries, the present study was designed to examine the influence of attitude, subjective norms, and perceived behavioral control on the manager's behavioral intention in fraudulent financial reporting as well as examine the moderating effects of religiosity and perceived organizational support (POS) between these relationships. The current study has successfully applied theory of planned behavior (Ajzen, 1991) as it helps to explain and predict the corporate managers' behavioral intention in developing countries like Pakistan. There have been various empirical studies (e.g. Carpenter & Reimers, 2005; Hays, 2013) to support this theory and has been extensively used as model for the prediction of behavioral intentions. In addition, religiosity and POS have incorporated as moderating variables in the TPB model to have an in depth understanding of the behavioral perception of managers.

This study assessed the general model fit through the coefficient of determination ( $R^2$ ) and predictive relevance ( $Q^2$ ). The value of ( $R^2$ ) 0.628 has disclosed that independent variables mutually explain 62.8% in the dependent variable (behavioral intention). Then, predictive relevance ( $Q^2$ ) was evaluated through blindfolding rules which is 0.312, the overall model

was significant. Further, the results of this study have provided strong empirical evidence that the attitude, subjective norms, and perceived behavioral control combinedly explicated a significant variation in the behavioral intention of manager to violate IFRS to meet earnings prediction.

### **6.2.1 Hypothesis 1 – Influence of Attitude Toward Behavioral Intention**

Based on the direct relationship results, the statistical test of  $H_1$ , the attitude towards behavior has a significant impact on the intention of managers to commit fraud. The positive coefficient ( $\beta = 0.271$ ) provides support for  $H_1$ . The result of this hypothesis is in line with the results of Carpenter & Reimers (2005), Jafarkarimi et al. (2016), Cronan et al. (2018), and Sayal & Singh (2020) that attitudes towards behavior have a strong effect on the behavioral intention. The result suggests attitude is one of the main factors that could influence the intention of managers in fraudulent financial reporting.

### **6.2.2 Hypothesis 2 – Influence of Subjective Norms on Behavioral Intention**

The statistical test of  $H_2$ , produces a positive and significant value of coefficient ( $\beta = 0.379$ ) and provides support for  $H_2$ . Based on results, this can be concluded that  $H_2$  has a strong empirical evidence to support it. The result discloses that the subjective norms (family members, friends, and others very close to managers) have a significant influence on the behavioral intention of managers to violate IFRS. The result is consistent with various prior studies (Ajzen, 1991; Alleyne et al., 2013; Carpenter & Reimers, 2005). This finding further suggests that environmental surroundings influence the intent of managers to behave unethically. It means people will perform a certain behavior by observing something happening around them.

### **6.2.3 Hypothesis 3 – Influence of Perceived Behavioral Control on Behavioral Intention**

The third hypothesis ( $H_3$ ) of direct relationship was statistically tested. There is also enough evidence to support  $H_3$ . The result of  $H_3$  indicates a positive coefficient ( $\beta = 0.259$ ) on perceived behavioral control. This can be concluded that there is substantial empirical evidence to support  $H_3$ . The results of this hypothesis in accordance with the previous studies (Ajzen, 1991; Hays, 2013; Park & Blenkinsopp, 2009). The results of this hypothesis suggest that the behavior intention of managers can be significantly influenced by the available resources and opportunities. This can be concluded that the behavioral control perceptions have a strong relationship with the intention to perform a certain behavior. Thus, managers may believe that their intention to commit fraud to achieve preplanned objectives is determined by their PBC. The notion of PBC is companionable with the idea of perceived self-efficacy which is concerned with the decisions of how well one can manage courses of action imperative to deal with potential condition (Ajzen, 2002; Bandura, 1997). The managers' intention to behave unethically is significantly influence by their self-assurance in their capability to commit fraud. Overall, the direct relationship findings of the current study are positive and significant. The attitude, subjective norms, and PBC have direct impacts on the intent of managers to behave unethically. Also, it can be observed from the results that the subjective norms are the best predictors of behavioral intention of corporate managers.

### **6.2.4 Hypothesis 4 – Moderating Effect of Religiosity Between Attitude and Behavioral Intention**

This hypothesis describes the moderating relationship between attitudes toward a certain behavior and intention. The findings of statistical test of  $H_4$  ( $\beta = 0.121$ ,  $t = 1.315$ ,  $p > 0.05$ ) has demonstrated an insignificant result. This result indicates that the religiosity has not

supported to be a significant construct that moderates the relation between attitude and intention. The result of this hypothesis is consistent with a similar studies of Kashif et al. (2017) and McClaren (2013) which discovered religiosity has no significant influence on managers' behavior intention. This result suggests that attitude was unable to individually explain the moral behavior. This hypothesis empirically found to be insignificant. Therefore, it can be assumed that religiosity may not support to be an important factor to shape the attitudes of religious managers to behave morally.

#### **6.2.5 Hypothesis 5 – Moderating Effect of Religiosity Between Subjective Norms and Behavioral Intention**

The interacting effects of religiosity on the relationship between subjective norms and intention has been posited in this hypothesis. The statistical calculated results of H<sub>5</sub> ( $\beta = 0.015$ ,  $t = 0.186$ ,  $p > 0.05$ ) were proved to be insignificant. Consistent to this result, Kashif et al. (2017) stated that subjective norms have no impact on intention of managers to behave unethically. This result is also in line with the study of Haji-Othman et al. (2018) where they discovered that the religiosity has not shown moderating impact between the relationship of subjective norms and intention to conform with zakat payment. Thus, the finding of this study signifies that the religiosity does not have any significant moderating influences on the intention to behave ethically/unethically. According to Islam (2004), norms implies to societal values and standards of behavior. Societal norms influence our daily lives where we perform various activities such as greeting, teaching children at home, managing and resolving organizational problems. These norms mould individuals' behaviors where they work or live. Hence, the present study is conducted in Pakistan where corruption and fraudulent activities are prevalent. Working in an environment where dishonesty and fraudulent behavior are common practices and appreciated by their

colleagues which ultimately influence people behavior working in same organization. They also take the fullest advantage of being Muslims. It is observed that Muslim managers with religious beliefs envisage that people put less suspicions on them to be engaged in fraudulent activities. Therefore, such perception stimulates managers to perform unethical acts. Unfortunately, in Pakistan, people who are involved in unethical behavior and being caught in fraudulent activities are never punished. They use different sources (e.g., bribery or nepotism) to escape from punishments and freely living their lives.

#### **6.2.6 Hypothesis 6 – Moderating Effect of Religiosity Between PBC and Behavioral Intention**

This hypothesis has been postulated to examine the moderating effect of religiosity between PBC and behavior intention of managers in FFR. The statistical measures of  $H_6$  ( $\beta = 0.095$ ,  $t = 0.742$ ,  $p > 0.05$ ) which provided insignificant results. This result suggests that religiosity was unable to strengthen the relationship between an individual's PBC and intention to perform certain moral behavior. The finding of this hypothesis is inconsistent with the study of Haji-Othman et al. (2018). They empirically supported that religiosity is an essential factor that influences the nexus between someone's PBC and intention to abide by income zakat disbursement. This result is also inconsistent with Kashif et al. (2017), whereby their study empirically provided evidence that religiosity has an impact on the relation between bank managers' PBC and behavioral intention to behave ethically in their organizations.

Unexpectedly, the findings of all moderating effects of religiosity are insignificance. The findings of statistical test of  $H_4$ ,  $H_5$ , and  $H_6$  are found insignificant. These findings suggest that the religiosity did not moderate the relationships between attitudes toward behavior, subjective norms, perceived behavioral control and behavioral intention to act

morally/immorally. It means that the behavioral intentions of managers are not significantly influenced by their religious beliefs. Precisely, this can be concluded that Muslim managers with their religious beliefs are involved in fraudulent activities. There might be several factors which caused the religiosity to be insignificant between these relationships. In the present study, the majority of the respondents were male. Specifically, this study has been conducted in Pakistan which is a patriarchal society, and most offices are dominated by male managers. Thus, the researcher was unable to collect data from more female respondents. According to Henriques et al. (2014), females are more religious than males. Several studies on employees' behavior, morale and ethics in the workplace indicated that a higher degree of religiosity could influence the attitudes of employees (Weaver & Agle, 2002). Further, some studies created association of gender with ethical decisions found that women express more ethical behavior than men (Arlow, 1991; Deshpande, 1997; McGee & Guo, 2017).

It is worthy of note that Islam is the state religion of Pakistan. Islam shows highest respect for ethics and a complete code of life for Muslims to live their individual, professional, and business life in a decent and sacred manner and strongly demoralizes all kinds of unethical practices such as fraud, bribery, and nepotism. However, its impact on fraudulent activities is very minor. In Pakistan, people are in state of cognitive dissonance as they accept ethical principles of Islam but practice dishonest actions to obtain their regular life objectives by calling it a worldly wisdom (Sabharwal & Berman, 2013). In this research, such immoral behavior has been observed that managers with their religious beliefs involved in FFR.

According to Hood et al. (1996, p.341), "we are left to ponder why religion does not have a significant impact in reducing cheating behavior". Interestingly, the findings are in correspondence with the results of the present study. This phenomenon suggests a crucial

question for the researchers that why employees (managers) are engaged in fraudulent activities instead of being Muslims or having religious beliefs.

#### **6.2.7 Hypothesis 7 – Moderating Effect of POS Between Attitude and Behavioral Intention**

The POS has been operationalized in this hypothesis to explain the interacting influences between attitudes and behavioral intention. The statistical test of  $H_7$  ( $\beta = 0.036$ ,  $t = 0.614$ ,  $p > 0.05$ ) has provided these results which are insignificant. This result exhibits that POS has no interacting effects of someone's attitudes toward a specific behavior and his/her intention. This result indicates a positive but not significant relationship. This is inconsistent with a similar study from different perspective conducted by Adebayo (2005) stated that respondents with positive attitude toward professional ethics are more likely to perform prosocial behaviors. Through the review of literature, various empirical studies have discussed that POS is an important construct which describes employees' general beliefs concerning their working organization and believe that a favorable support from their employers, develop a positive attitudes and behaviors (Eder & Eisenberger, 2008).

#### **6.2.8 Hypothesis 8 – Moderating Effect of POS Between Subjective Norm and Behavioral Intention**

POS has been postulated in this hypothesis to explain the moderating influences between subjective and behavioral intention. The statistical test of  $H_8$  ( $\beta = -0.010$ ,  $t = 0.184$ ,  $p > 0.05$ ) has generated these insignificant findings. This result relatively displays an unfavorable insignificant relationship. Further, this result proposed that POS has failed to provide a significant moderating effects of individuals' subjective norms and their behavior intention. It can be assumed that managers with organizational support still found to be engaged in fraudulent activities.

### **6.2.9 Hypothesis 9 – Moderating Effect of POS Between PBC and Behavioral Intention**

This hypothesis illustrates the moderating influence of POS between PBC and behavioral intention. The empirical test of  $H_9$  ( $\beta = 0.060$ ,  $t = 0.921$ ,  $p > 0.05$ ) reveals these insignificant findings. This result signifies a positive insignificant relation between these constructs. Further, suggests that POS does not moderate the relationship between PBC and intention.

These hypotheses were designed to identify the moderating impact of POS between exogenous constructs (attitude, subjective norms and PBC) and endogenous (behavioral intention). Results displayed that POS has no moderating effects between these relationships. It means managers with perceived organizational supports have no positive impact on their behavior intention. A study done by Suazo and Turnley (2010) suggests that employees show higher degree of loyalty and determination to their organizations when they perceived greater support from them. However, the results of the present study in contrast with such perception. The present study has found that managers with perceived support from the organization still behave unethically.

The POS refers to the employees' general beliefs regarding their contributions and offering more constructive support for the well-being from their organization (Baran et al., 2012; Sumathi et al., 2015). Therefore, it is believed that the existence of POS provides a substantial decrease in unethical behavior of employees (Eder & Eisenberger, 2008). Employees who perceive higher degree of supports from their organization would reciprocate more commitment which increases employees' job performance and motivates them to behave morally (Eisenberger & Stinglhamber, 2011; Madden et al., 2015). On the other, a low degree of POS encourages employees to be involved in various kinds of



unethical behaviors (Eisenberger et al., 2001). The exchange theory entails such societal dynamic in the workplace (Cropanzano & Mitchell, 2005). This postulates the employee and organization relationships in terms of resource exchange (Foa & Foa, 1980). Usually, resources have been classified into economic resources such as monthly income, bonus, rewards, prizes, and socio-economic resources include appreciation, esteem, encouragement, and acknowledgement (Neves & Champion, 2015). In the present study, the demographic characteristics of respondents indicated that the majority of them received a low level of salary from their respective organizations. Prasetya and Kato (2011) stated that salary is an important factor of compensation scheme in an organization. It can influence the association between employers and employees, when the wages are low, unbalanced, disproportionate and unrelated to performance. From the respondents' perspective, salary is the only source of earnings to fulfil their basic needs and live a conducive life in exchange of their services. In underdeveloped countries, such as Pakistan, salary is regarded as a stable source of earnings. When the employees receive unsatisfactory wages, they became demotivated and ultimately, develop an adverse behavior towards their organization. Specifically, in Pakistan people are facing a very hefty living cost with low income (Naseer & Ahmed, 2016). Moreover, researchers contended that paying low salaries to employees in developing countries can be reasoned for unprecedented immoral behavior (BongHwan, 2015; Rijckeghem & Weder, 2001). It can be concluded that the unfair compensation scheme in an organization persuades employees to form an unethical attitude towards the organization. According to Wells (2001), inadequate compensation and low salary could be important factors that influence employees to act unethically. Thus, the unsatisfactory wage induces managers to form an adverse attitude towards the organization. Further, lack of ethics could be an indispensable

element to influence an employee to commit occupational fraud. It is observed from the descriptive results that the most of respondents lacking ethical background. Ethics is an important factor improving ethical behavior of all the employees in the organizations (Saba et al., 2015). A firm's contextual ethics are developed by its established philosophies, the ethical beliefs of its followers and code of ethics (Valentine et al., 2002; Werhane & Freeman, 1999). These settings increase moral perceptiveness of employees as well as shape their behavior towards ethically questionable or unethical conditions (Singhapakdi et al., 1999). However, in the context of Pakistan, the ethical culture is extremely poor. The unethical practices such as corruption, fraud, bribery, extortion, biasness, embezzlement are prevalent at all level of social settings (Sabharwal & Berman, 2013). The country is governed by its elite classes since the independence. The poor ethical structure has paved ways for the majority of elites to continue their fraudulent activities while a minority of the people follow the moral principles and justice. Thus, lacking a rigorous ethical environment in the public and private sectors has triggered a significant rise in the fraudulent activities in Pakistan. In addition, an employee may be inclined towards frauds when observes that their colleagues are committing unethical behavior in the organization (Khan et al., 2015). The fraudster may be appreciated by their coworkers within the organization. Therefore, POS has no significant moderating impact in relationship among the TPB's related measures. It is also noticed that the analysis of H<sub>8</sub> showed POS negatively moderated the relationship between subjective norms and behavioral intention of managers to commit fraud. It can be argued that the family members or friends influence the behavior of managers to avoid committing dishonest act.

### **6.3 Summary**

This chapter has precisely expounded the findings and more specifically concentrated on the discussion part of the study. At first, started the discussion with the findings of three important hypotheses based on statistical results which were significant. These hypotheses helped to achieve the most important objectives of the current study. Thereafter, the findings of moderating relationships were discussed which were statistically insignificant. Finally, several convincing arguments have been provided to support the insignificance of moderation effects.

## **CHAPTER 7**

### **CONCLUSION**

#### **7.1 Introduction**

The final chapter defines the research implications, limitations, suggestions, and conclusion of the study. This chapter commences with explaining the research implications that is followed by limitations of the study. Then some suggestions would be provided for the future research on this vital area. Lastly, an extensive concluding observation would be discussed in this chapter to describe the theme of the study.

#### **7.2 Research Implications**

The findings of the current study have theoretical as well as practical contributions. In the following subsections, each part is illustrated more comprehensively. This study has provided a significant contribution in FFR and managers' behavior intention from the context Pakistani firms. The study also extended the framework of past studies by analyzing the role of attitude, subjective norms, PBC, and behavioral intention of managers tend to commit fraudulent activities. Further, this study helps in shaping the construct, identifying the boundaries, and creating consistency in explanation for the future research suggestions.

##### **7.2.1 Theoretical Implications**

The main purpose of this study was to identify and create a new knowledge based on the behaviors and intentions of managers involving in dishonest reporting practices in Pakistan. The present study has provided theoretical contributions to the scarce empirical studies presently exist on FFR and behavior intention of managers from the developing country perspective. More specifically, this study added to the existing literature on current FFR

and fraud scandals in Pakistani companies. In addition, the current study has provided a more comprehensive understanding of the attitudinal and intentional factors of managers' unethical behaviors.

This study has extended prior literature carried out in most of the developed countries and provided potential to enhance the FFR literatures with an improved understanding of the influences of managers' unethical practices. A prior study on FFR in USA explaining managers' behavioral intention decision in committing fraud (Carpenter & Reimers, 2005), whereas the current study intended to bridge the existing research gap by focusing on managers' unethical behavior from developing countries perspective, by applying TPB may be effective in forecasting managers' financial decisions in context of ethical behavior.

In addition, this study added to the theoretical contribution by using PLS-SEM analysis through Smart PLS technique in order to analyze the relationship between the variables which is scarce in the existing literature, more importantly in Pakistan context. Moreover, its most significant theoretical contribution to the extant literature is the incorporation of religiosity and POS into the TPB model and analytical testing its influence on managers' intent to behave morally. Finally, it provided empirical evidence on the behavioral determinants that could help to understand the fraudulent intention of managers.

### **7.2.2 Practical Implications**

From the practical perception, the findings of the current study has provided suggestions for the policy makers and regulatory bodies to better understand the factors that influence the behavioral intent of managers regarding FFR. In addition, the findings of this study are very crucial to the top executives (Corporate Board of Directors) to motivate the managers on ethical decision making that can help to lessen unethical practices as well as risks of

fraudulent activities in an organization. According to the findings, subjective norms are the most important determinant of behavioral intention. This suggests that there is an absence of ethical environment in Pakistani culture. Further, recommends that ethical education should be enhanced in our school, among family members and in our culture as whole. This may help to acquire a positive change from fraudulent behavior. Moreover, attitude and PBC are also important determinant of behavior intention. In order to reduce fraudulent behavior, the findings of the current study suggest that the attitudes of managers should be changed. Conclusively, the findings have provided a more comprehensive understanding that the TPB is significantly beneficial in predicting the behavior of corporate managers.

The policy makers and regulatory bodies are very interested to formulate code of business ethics. The findings of this study are very advantageous to them to create various ethical policies that help in predicting the moral behavior of managers. Further, the results of this study would be significant to the Security of Exchange Commission of Pakistan (SECP), National Accountability Bauru (NAB), and Federal Investigation Agency (FIA) to understand the behavior of people who commit fraud. Therefore, it helps to minimize fraudulent activities in Pakistan. To sum up, the current study has provided a substantial importance to the existing academic literature of FFR as well as significant practical contributions.

### **7.3 Limitations of the Study**

Although the present study has successfully achieved its objectives by answering the research questions. This study has offered significant findings which are helpful to policy makers and regulatory bodies that may have considerable influence while formulating new policies. Nonetheless, this research has undergone some limitations like other research which are brought into discussion as below.

The most noticeable limitation of this study is that the researcher was incapable to distribute the total number of specified samples due to the spread of COVID-19 in the country. Amidst the data collection period, the lockdown began in the country, so the researcher was unable to acquire the desired number of samples. It is assumed that the more respondents in a study would provide better results (Patel et al., 2003).

In addition, the scale used for the measurement was a Likert scale which usually measures the attitudes, opinions, and beliefs of people in behavioral studies. Apart from its advantages and widespread use, Likert scale also has several drawbacks. It only measures ordinal data (Lodge, 1981). Thus, presenting some fixed categories may inadvertently affect respondents' responses. Further, a Likert scale is a unidimensional and provides some limited options. However, the attitudes of people exist in vast and multi-dimensional for a certain topic. Therefore, it is less possible to capture the true behavior of the respondents.

Another important limitation is that this study was conducted in a patriarchal society. Most of the data were collected from male respondents. It is believed that male and female have different perceptions to response a survey and affect the data accordingly. Most importantly, from religion prospect, women are more serious and religious than men. It has been observed that the unequal samples size has significantly affected the findings. Moreover, the responses were received only from the Muslim respondents. Finally, this study only examined the intention of managers to be engaged in unethical behavior and could not explain the actual behavior of managers. With such limitations, the findings of the study required to be explained with extensive care and must not be generalized to all executives and managers of an organization and to other group of ethnicities.

#### **7.4 Future Research Recommendations**

This research exclusively investigated the unethical behavior of managers in Pakistani corporations. It is recommended that the study can be extended by comparing its findings with other countries. Specifically, ASEAN members countries are most vulnerable to fraudulent activities. According to Asia Pacific Fraud Survey the senior managers and top executives are involved in unethical behavior. It would be important to conduct such type of study that helps in explaining unethical behavior of managers.

In addition, this study applied a cross-sectional approach, not longitudinal. A cross-sectional study cannot evaluate the behavior of respondents over a long period. Only explain causality between the variables that can be tested with the collected data. Thus, a further research should incorporate a longitudinal design in order to have a better understanding the behavior of managers.

Moreover, in future a qualitative design should be used to obtain data through interview from the respondents. An in-depth survey is reasonably effective and can provide a broader view of respondents to obtain more knowledge about the issues and build a more extensive analysis on the focus area of study. On the other hand, a close ended questionnaire was unable to cover a comprehensive understanding of the issues. Finally, it is suggested that the future research should only focus on accountant as respondents instead of collecting data from different managerial positions. Because accountants can provide relevant and concrete information about the research topic than that of other managerial positions.

#### **7.5 Conclusion**

Fraudulent financial reporting (FFR) is an important issue of today business era because of many corporate scandals such as Enron, WorldCom, and Satyam that have devastating



impacts on international business over the periods. The surge in fraudulent practices has been observed in the developed world as well as in the emerging economies. Studies concluded that the increase in fraudulent activities has been ascribed to the unethical behavior of managers and other employees. This study was devised to investigate the influences that derive the managers to behave unethically.

The primary objective of the present study was to examine the influence of attitudes, subjective norms, PBC on the behavioral intention of managers' decision in the violation of IFRS to meet earnings prediction by applying TPB. In addition, this study has attempted to explore the moderating role of the religiosity and POS between the attitudes, subjective norms, PBC, and behavioral intention of managers in the corporate sectors of Pakistan. Regardless of the extensive literature and the prevalence of fraudulent activities, scarce studies have been conducted in the context of Pakistan regarding this important subject. Previous studies have focused on advance countries to explore the managers' ethical behavior concerning FFR. Further, the incorporation of religiosity and POS into TPB model and empirically testing its impact on corporate managers' intention to behave morally. Moreover, the rationale behind this study was that the fraudulent practices are rampant in private and public corporations in Pakistan (Nasir & Bashir, 2012). The conceptual framework was adopted from the TPB model to answer the research questions. Accordingly, a quantitative research approach was applied to assess the proposed hypotheses. After reviewing the existent literature, a survey instrument was adopted. For the purpose of data collection, a total of 400 self-administered questionnaires were distributed among the corporate managers in Pakistan and 229 valid questionnaires were received. Then, the collected data was analyzed with the help of PLS-SEM analysis.

The results of the direct relationships have provided strong evidence that the attitudes, subjective norms, PBC, and behavioral intention a significant effect on the intent of managers to violate IFRS to meet earnings prediction. Based on the results, the attitudes of manager toward FFR showed a significant impact on the intent of managers to commit dishonest act. The subjective norms put more influence on the intent of managers to act unethically than attitude and PBC. The PBC was substantiated with sufficient evidence to be an important determinant to have an impact on managers' intention to commit fraudulent act. The results of both moderations have no significant effect on the intention of managers.

## **7.6 Summary**

In summary, it is convincing that the implications of this study have a significant impact on the intent of the corporate managers. Accordingly, this chapter has explained the theoretic and practical implications which are very crucial for those who are interested to formulate ethical codes of business. Apart from that research limitations, directions for more research as well as conclusion have been broadly focused on in this final chapter.

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