

IMPACT OF ISLAMIC ACCOUNTING PRACTICES ON WORKERS MORAL BEHAVIOR IN BANKS OF PESHAWAR

Waseem Ullah Khan¹, Muhammad Hashim², Anam Bhatti³, Habib Ullah⁴

Abstract

Business operations have been reported various financial frauds and embezzlement and need to be traced and reviewed with ethical and moral based accounting system to minimize misappropriation of financial data. Islamic accounting practices enriched with ethical standard and moral education with based purely on Islamic way of life and law. The system can be considered a tool to reduce monetary frauds and shaped the individual psyche to prevent them in future. The dimensions of Islamic accounting system (stewardship and accountability) were considered the important predictors of workers moral behavior towards moral responsibility. The study was conducted in commercial banks situated in Peshawar. The data was obtained through survey. Seven major banks were selected as sample size for this study. Information obtained with the help of 70 filled questionnaires. The results showed a strong relation between Islamic way of accounting and worker moral psyche and behavior. The study will contribute in the field of Islamic accounting literature and will provide a new insight for financial managers. Recommendations are given in the last.

Keywords: *Islamic accounting, banks, Peshawar, workers, moral behavior*

1. Introduction

Modern scandals in financial system have damaged with great extent the reputation of established businesses (Batt, 2001). Lack of moral education in accounting dented the financial environment of a company (Abdul Reman, 2003). Islamic accounting (IA) can be defined as a comprehensive and will design system of financial record based on Islamic ways and principals (Atthar & Ullah, 2009). IA is a system of accounting based on Islamic laws to achieve goals by keeping all the prescribed limitations engraved in Islamic Shari'ah (Hameed, 2000). This system has its own divine rules to operate business under the moral obligations to fulfill stakeholders' needs and organization success (Sulaiman, 2003). Moral behaviors relate with conscious beliefs and honest and positive approach for performing any business or social activities (abdul Rehman, 2003). Validity in business financial reporting system can be a result of Islamic accounting approach (Samadi, 2011). Islamic accounting system can be introduced in different ways such as providing moral education, different workshop on Islamic laws and financial activities, arrangement different seminars and providing access to workers to get knowledge from a wide varieties of books and available resources (Mahdavikhou & Khotanlou, 2012). In the study of Caroll, (2005), stated that ethics and moral behavior is the important thing one can be trusted and survive business. Without Islamic accounting system, integrity can be low, misappropriation and frauds can be high and good moral practices can be low in the workplace (Mahdavikhou & Khotanlou, 2012).

¹Assistant Professor, Government College of Management Sciences Mardan, Pakistan

²Higher Education Department, KP, Pakistan

³Department of Business Management, Ilma University, Karachi

⁴PhD Scholar, Sarhad University of Science and Technology, Peshawar

Different studies have proved that there was positive relation between Islamic accounting system and workers moral behavior responsibility (Atthar & Ullah, 2009; Hashim, 2014). Islamic accounting system based on fair dealings such as stewardship, interest free loans, zakat responsibility and self accountability (Hashim, 2014). This system purely based on Islamic way of teaching and one of the main elements of Islamic teaching is morality and ethics (Abdul Rehman, 2003). How best practiced morality can be developed by implementing Islamic accounting system was the main objective in commercial banks of Peshawar.

Good control of accounting system can be a tool to manage business properly and avoid any kind of theft and embezzlement (Hashim, 2012). Proper and vigilant administration and account managers play a very important role in organization success. To polish moral behavior to deal with business operation, it is desirable to have such an accounting system which not only improve financial record system but also held responsible all workers. Islamic accounting systems can be a tool to minimize frauds and illegal financial activities. The accounting system of commercial banks in Peshawar is based mostly on conventional accounting system and not free from any frauds and cheatings. Now it is admissible to have such a system which not only improve financial data recording but also to improve the mental health of workers. This study is conducted in commercial banks of Peshawar by using two main variables Islamic accounting system and workers moral behavior to find out any relationship between them.

1.2 Objectives

The objectives are:

1. To know the impact of Islamic accounting system on moral behavior
2. To know the impact of stewardship and accountability on moral behavior of workers
3. To examine the impact of Islamic accounting approach on financial performance.

1.3 Research questions

1. How does Islamic accounting system impact behavior
2. Is there any relations between Islamic accounting system and workers moral psyche
3. How do interest free loan, zakat and accountability impact behavior of workers

2. Literature review

2.1 Islamic Accounting (IA)

It is a branch of accounting based on the moral code of ethics engraved in Islamic law and Shari'ah with intention to perform all activities and to gain objectives within the limitations of Islamic regulations (Mahdavi-khou & Khotanlou, 2012). The system which purifies all the financial data, keeps record and analyze and interpret by following rules and regulations of Islamic laws and Sharia'ah is term as Islamic accounting (Hameed, 2000; Atthar & Ullah, 2009). The system which is held responsible all the stakeholders for their moral behavior and accountable to ensure all the business financial operation should be under the Islamic laws and to achieve social economic objectives with any intervention of fraudulent behavior is called Islamic accounting (Hameed, 2000). Most of modern businesses have found fraudulent activities and misappropriation in financial matters because of less honesty in accounting (Gowthorpe, 2005). Embezzlement can be minimized by implementing Islamic accounting system (Atthar & Ullah, 2009). Many studies revealed that Islamic accounting practices especially in

financial institutions have great impact on workers moral behavior. Islamic accounting not only improves financial recording system but also increase awareness of employees to prevent their selves from all kinds of frauds related to monetary terms (Hashim, 2012).

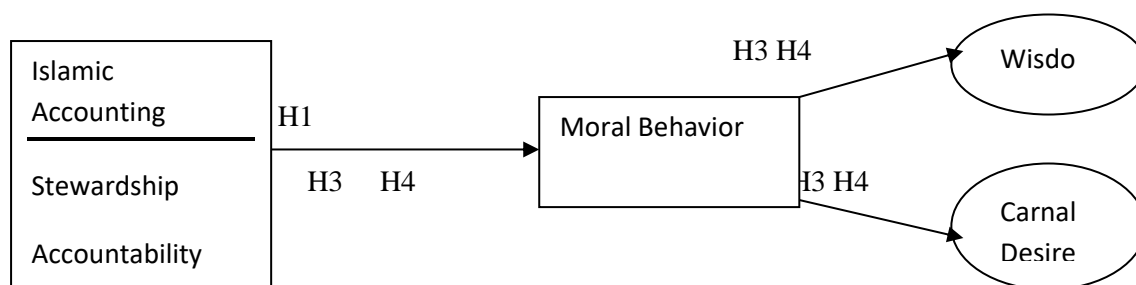
2.2 Employees/workers moral behavior

Moral behavior refers to that kind of dealings by human being in which right and wrong aspects are kept in top priority. If an individual is properly educated with Islamic teaching and its laws his/her thoughts can be positive and vice versa (Hashim, 2012; Rokhman, 2010). An individual moral behavior can be comprised such as: heart desire, wisdom and self desire (carnal) (Emrullah & Hadimi, 2001). Islamic accounting education can help an individual in keeping his all three moral behavior to act in responsible manner. Islamic laws impact individual wisdom which prompts his desire to act in positive way (Hameed, 2000). Many studies stated that Islamic accounting practices impact workers behavior by improving their wisdom, desires and thoughts in positive way so that all financial actions directed towards less fraudulent behavior (Mahdavikhou & Khotanlou, 2012).

2.3 Islamic accounting and workers moral behavior

Many studies showed that there is positive relation between moral behavior of workers and Islamic accounting practices (Hashim, 2012). Islamic Sharia'ah (Laws) not only improves human perceptions regarding financial matters but also help them to motive others to prevent from misappropriation (Gowthrope, 2005). Fraudulent activities with great extent minimized by continuously practicing Islamic accounting because this system of accounting improve financial data procedures, recording mechanism and reporting structure of the entity, thus to improve the moral behavior of workers (Mahdavikhou & Khotanlou, 2012; Rokhman, 2010).

2.4 Theoretical framework



2.5 Hypotheses

- H1. There is positive association of Islamic accounting and moral behavior
- H2. Islamic accounting practices positively improve financial activities
- H3. Accountability impact wisdom and desire positively
- H4. Stewardship impacts wisdom and desire positively.

3. Methodology

Methodology plays very important role in research study. The methodology refers the sequence of steps to be taken to collect research data and techniques use for its analysis (Hashim, Khan & Usman, 2019; Bhatti, Rehman, 2020). The approach adopted in this study was quantitative. It is that approach in which

a researchers use some statistical tools to verify the data. Survey designed was used to collect data from seven banks in Peshawar region.

3.1 Population

Population is that part from which a researcher makes sample size. Population is the total part of the study from where data can be taken (Hashim et al., 2019; Bhatti,2018). The study population was all banks of Peshawar.

3.2 Sample size

Sample is the important part of the research study. It is based on population. The sample size of this study was seven banks in Peshawar (MCB Bank, ABL, UBL, HBL, Mezan Bank, Summit Bank and Bank Alfalah). All the banks were chosen from city of Peshawar. Simple random technique was used to distribute the questionnaire. Total 82 questionnaires were distributed in all main branches of banks located in the Peshawar city. Workers of different banks were asked to fill the structured questionnaire before discussing and clearing all the important terms of the questionnaire. The main purpose of the questionnaire was to understand the perception of the workers about the Islamic accounting practices and how its impact moral behavior in banks. The response rate was 85%.

3.3 Details of the respondents

Majority of the respondents were graduates. Comprise both genders male and female. The ratio of male was 65% and female 25%. The length of service averaged between 4 to 12 years. Ages of all respondents were between 26 and 42.

3.4 Instrument for analysis

Questionnaire is also important part of data collection. It can be used in those studies when it is desirable to understand the perception of respondents. The instrument used was taken from the study of Halim (2017). For both variables such as Islamic accounting and workers moral behavior, a structured questionnaire designed by Halim (2017) was used to collect the data. The items of Islamic accounting were 8 and similarly the items of workers moral behavior was 6. The reliability of the instrument was good as it was measured .82 as overall. The individual reliability was also in acceptable range. All the items reliability was checked through SPSS 21 and ranged between .72 and .78.

4. Findings

4.1 Pearson relation

Table 1

Correlation matrix Summary

Variables	Islamic Accounting	Workers Behavior
Items	8	6
Mean	2.34	2.33
Standard Error	.621	.712

IA	-	.72
WB	.72	-

The table 1 shows strong relation between Islamic accounting and workers moral behavior. All the values are in acceptable range. The regression analysis shows that Islamic accounting practices improves workers moral behavior, as it is showed ($r = .72$) it means Islamic accounting practices changes individual moral behavior by 72 percent, one unit change in Islamic accounting practices leads to 72 percent change in workers moral behavior and responsibility. Islamic accounting is independent variable and workers moral behavior is dependent variable. As mentioned by Hashim et al. (2019) that if correlation is positive it means that all hypotheses are accepted.

4.2 Structural Equation Modeling (SEM)

SEM technique can be used to test the structural model of the study. For more comprehensive results SEM technique is recommended (Hashim et al., 2019). In this study SEM technique was also applied by using AMOS 23 for measurement model and structural model analysis. Both models are important in relation studies. Especially when a researcher wants understand perception of individual with the help of questionnaire.

4.3 Measurement model (MM)

MM was assessed with the help of path diagram. The relation between latent variables was significant with 0.001. The estimate between two latent variables was .72 with 0.01. This shows strong relation between two variables. The employees perceived that Islamic accounting practices improved the moral behavior in banks. The measurement model is best fitted when all the standard values of GFI, CFI, and RMSEA are in acceptable range. All the values of these fit statistics were (0.92, 0.91 and 0.064) with CMIN value is 2.43. The measurement model with factor loadings showed in figure 1 below.

Fit statistics (CMIN =2.43 with DF 5

GFI =0.92, CFI=0.91 RMSEA=0.064

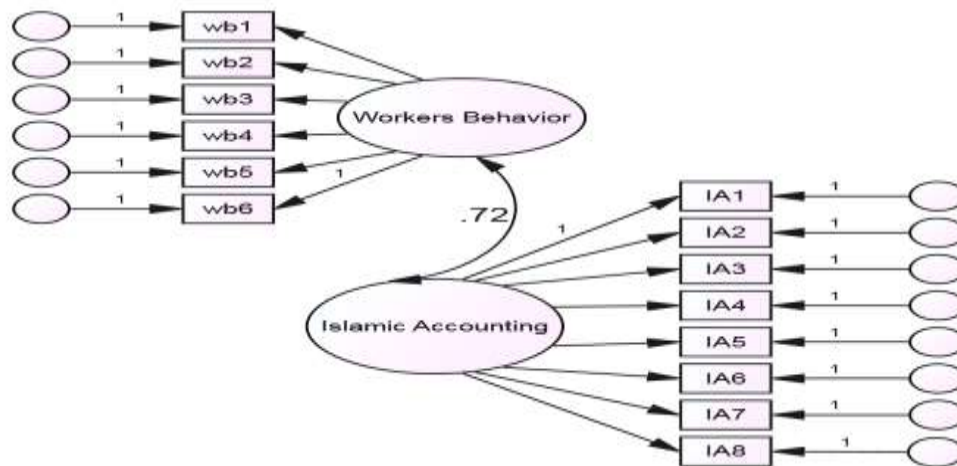


Figure 1: Measurement model with path analysis

4.4 Structural Model (SM)

SM was assessed with the help of path diagram. The relation between latent variables with each construct was significant with 0.001. The estimate between two latent variables was .71 with 0.01. This shows strong relation between two variables. All the constructs were significantly loaded on latent variables. The Islamic accounting constructs was 8 and the work moral behavior was 6. All the construct values were greater than 0.5, which showed strong relation with latent variables. The SM is best fitted when all the standard values of GFI, CFI, and RMSEA are in acceptable range. All the values of these fit statistics were (0.94, 0.92 and 0.04) with CMIN value is 2.26. The measurement model with factor loadings showed in figure 2 below. The difference between two models exhibit that structural model is good fitted to the data. Difference between two models values are provided in figure 1 and figure 2.

Fit statistics (CMIN =2.26 with DF 7

GFI =0.94, CFI=0.92 RMSEA=0.04

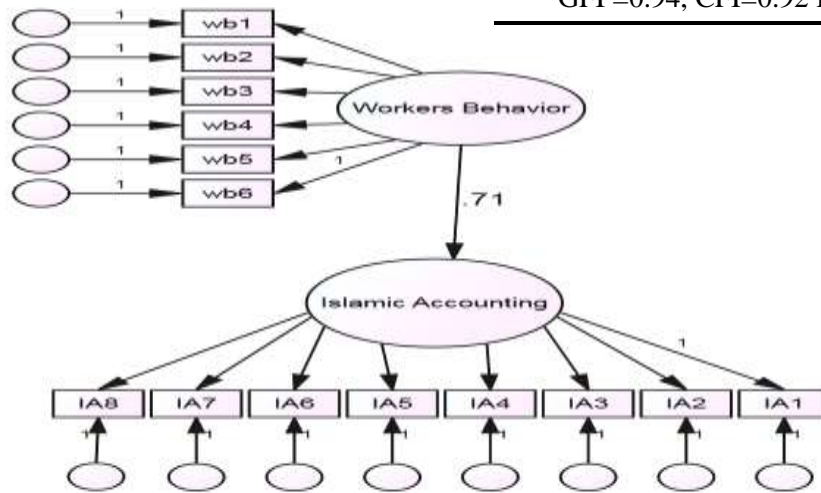


Figure 2: SM with path analysis

4.5 Hypotheses test

As mentioned by Rehman (2012) and Hashim et al.(2019) that if the Measurement model and correlation analysis are significant so all the positive hypotheses are proved and thus accepted. As can be seen in table 1 and figure 1 the values are significant and relation is strong between variables (Islamic accounting and work moral behavior), hence, all hypotheses (H1, H2, H3 and H4) are acceptable. Below table 2 shows the final results of test.

Table 2

Test summary

	H1*		H2.		H3.		H4.
	Beta.	Error.	Beta.	error	beta	error	beta
Un-standardized coefficient.	2.65	.651	3.11	.721	3.86	.711	3.61
Standardized coefficient.	.71		.70		.69		.64
T value.	21.22		22.21		22.65		.1132
Significance.	.001		.000		.000		0.001

*Islamic Accounting = IV Work moral behavior = DV

5. Discussions

As from literature review it was cleared that there is strong relation between Islamic accounting practices and workers moral behavior in banks of Peshawar, Pakistan. Data was collected from 70 employees working in different banks in Peshawar to know their perception regarding Islamic accounting practices in banks. 82 questionnaires were distributed in all seven banks and 70 questionnaires were received as 12 questionnaires were not completed and missing some important data. The components of Islamic accounting practices were stewardship and accountability while the components of workers moral behavior were wisdom, carnal desire. All the respondents were considered that Islamic accounting can be a tool of minimizing frauds and embezzlement in work place and especially in financial activities. They had also considered that Islamic accounting practices if properly educate workers can increase their moral responsibility and can work better for the success of a business.

By exploring Islamic accounting literature, assumptions were developed and then tested. To test the study data help was taken from analysis of moment structured (AMOS) and SEM. Correlation matrix was also taken to know the exact relation between variables and showed strong relation between independent and dependent variables. For test of theoretical model, SEM technique was used. To test theoretical model, it is important to used path diagram of structural model (Hashim, et al., 2109). Two models were used to know the relationship of data, MM (measurement model) and SM (structural model). The MM was made by using AMOS, all the factors were loaded significantly and it was proved that the hypotheses developed were accepted and supported. Both models were predicted that there was strong relation between variables as the ($r = .72$) of Islamic accounting was significant on workers moral behavior in banks in Peshawar. Fit statistics of both model (figure 1 and 2) were significant at 0.001. The test summary of suppositions were provided (table 2) which showed that all the coefficients were in acceptable range and thus all accepted.

5.1 Implications

Misappropriations in financial activities have been reported various times in different businesses around the world. The burden of preventive costs in finding out the exact source is a dilemma. What to do next to save all the financial activities from frauds and embezzlement. All banks in Peshawar are lacking the proper implementation of pure accounting practices. Proper education to workers on Islamic accounting principle is admissible which not only improve the workers accountability but also help them to educate more in future. The new system of Islamic accounting practices will not only improve the law makers to make policies regarding financial matter but also to make workers held responsible morally as well as spiritually. This study will help the researcher to get help from the developed literature on Islamic accounting practices and will get more insight from workers moral behavior. The financial analysts and policy makers will know more about the relationship between Islamic accounting and workers moral behavior.

6. Conclusion

This research emphasized the significance of Islamic accounting practices and its impact on workers moral behavior in banks of Peshawar. The results showed that Islamic accounting practices positively impact workers moral behavior and improve their wisdom, carnal desires and spiritual health. All the hypotheses were accepted ($r = .72, .62, .69$ and $.64$). All the t scores were also significant.

6.1 Future study

The research has been quantitative, a qualitative analysis on variables is recommended. The sample size was also limited so the findings could not be generalized. More banks would have to be taken from other cities. Variable of mediation between Islamic accounting practices and workers moral behavior should also be taken in order to learn more about two variables.

References

1. Abdul Rahman, A. R. (2003). Ethic in accounting education: contribution of Islamic principles. *IJUM Journal of Economics and Management*, 11(1), 2-8.
2. Ather, S. M. Ullah. M. H., (2009) *Islamic Accounting Systems and Practices Accounting Systems: The Cost and Management*, November-December, 1-16.
3. Bhatt, GD. (2001). Knowledge management in organizations: examining the interaction between technologies, techniques, and people. *Journal of knowledge management*, 5(1), 68-75.
4. Bhatti, A., Bano, T., & Rehman, S.-U.-. (2019). Social Media and Consumer Satisfaction Effecton Consumer Purchase Intention with the Moderating Role of Trust International journal of Business Management, 4(2), 131-141.
5. Bhatti, A. (2018). Sales Promotion and Price Discount Effect on Consumer Purchase Intention with the Moderating Role of Social Media in Pakistan. *International journal of Business Management*, 3(4), 50-58.
6. Carroll, R. (2005) A model for ethical education in accounting, In Gowthorpe, C. and Blake J. (Eds.) *"Ethical Issues in Accounting"* (2nd ed.) Taylor & Francis e-Library, 149-164.
7. Emrullah, A. B. Hadimi, M., (2001) *Ethics of islam* (3rd ed.). Turkey: Waqf Ikhlas Publication, 6-27.
8. Gowthorpe, C. (2005) Ethical issues and the auditor. In Gowthorpe, C. and Blake J. (Eds.) *"Ethical Issues In Accounting"* (2nd ed) .Taylor & Francis e-Library, 135-149.
9. Halim, H. A. (2017). Understanding and Awareness of Islamic Accounting: The Case of Malaysian Accounting Undergraduates. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 7(4), 33-39.
10. Hameed, S. (2000). *The need for Islamic Accounting: Perception of Its Objectives and Characteristics by Malaysia Accountants and Academics*. Ph.D. Thesis. University of Dundee.
11. Hashim, M. (2012). Islamic perception of business ethics and the impact of secular thoughts on Islamic business ethics. *International journal of academic research in business and social sciences*, 2(3), 98.
12. Hashim, M. (2014). Islamic business moral principles. *International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)*, 1(1), 23-28.
13. Hashim, M., Khan, M. A., & Adnan, S. (2019). Servant Leadership and Enhancement of Organizational Performance. *Global Social Sciences Review*, 4(1), 166-174.
14. Mahdavihou, M., & Khotanlou, M. (2012). New approach to teaching of ethics in accounting "introducing Islamic ethics into accounting education". *Procedia-Social and Behavioral Sciences*, 46, 1318-1322.
15. Rahman, W. (2012). *The relationship of attitudinal and behavioural outcomes with employee development in the context of performance appraisal in public Universities of Khyber Pakhtunkhwa*. Unpublished Ph.D. Thesis, National University of Modern Languages, Islamabad.
16. Rokhman, W. (2010) The effect of Islamic work ethics on work outcomes, *Electronic Journal of Business Ethics and Organization Studies*, Vol.15, No. 1, 21-27.

15. Samadi, A. Mahdavihou, R., (2009) Impact of managerial ethics on organizational commitment: case of employees of Hamedan tax affairs head office, *Tax Journal, new series* - 17(4 (52)):45-71.
16. Sulaiman, M. (2003). The influence of riba and zakat on Islamic Accounting, *Indonesian Management and Accounting Review, Vol. 2 (2), 149-167*