

**FRAUD AWARENESS, ETHICAL CULTURE,
PARTICIPATION IN DECISION MAKING,
CORPORATE GOVERNANCE AND CORPORATE
FRAUD: PERCEPTION OF EMPLOYEES WORKING
IN COMPANIES TRADED IN IRAQ STOCK
EXCHANGE**

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UNIVERSITI PENDIDIKAN SULTAN IDRIS

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FRAUD AWARENESS, ETHICAL CULTURE, PARTICIPATION IN DECISION
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PERCEPTION OF EMPLOYEES WORKING IN COMPANIES
TRADED IN IRAQ STOCK EXCHANGE

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ABSTRACT

The aim of this research is to investigate the impact of fraud awareness, ethical culture, and participation in decision making on corporate fraud among companies traded in the Iraq Stock Exchange by focusing on the moderating impact of corporate governance. The theoretical foundation for this research was built based on the agency theory. A quantitative approach was used to collect data from a group of respondents consisting of accountants and auditors, who were selected through a simple random sampling technique. SPSS and Smart-PLS were used to analyze the data. The questionnaire was administered three times. The first administration involved a pilot test to investigate the reliability of the questionnaire involving 100 respondents were selected. For the second administration, the questionnaire was distributed to 100 respondents to conduct an exploratory factor analysis to verify that the research variables could measure their impacts. For the third administration, the questionnaire was distributed to 389 respondents to conduct a confirmatory factorial analysis. The results of the study found that, the first direct hypothesis that examine the impact of fraud awareness on corporate fraud showed a negative and significant impact, at $\beta = -0.101$, $t\text{-value} = 3.857$ and $p\text{-value} = 0.000$. The second direct hypothesis which examine the impact of participation in decision making on corporate fraud revealed a negative and significant impact, at $\beta = -0.849$, $t\text{-value} = 36.727$ and $p\text{-value} = 0.000$. The third hypothesis which examine the impact of ethical culture on corporate fraud revealed a negative and no significant impact, at $\beta = -0.021$, $t\text{-value} = 1.153$ and $p\text{-value} = 0.249$. Moreover, corporate governance moderated the impact of ethical culture and participation in decision making on corporate fraud. In implication, companies should focus on corporate governance to increase the awareness on the relative among fraud awareness, ethical culture and participation in decision making.



KESEDARAN TENTANG PENIPUAN, BUDAYA BERETIKA, PENYERTAAN DALAM MEMBUAT KEPUTUSAN, TADBIR URUS KORPORAT DAN PENIPUAN KORPORAT: PERSEPSI PEKERJA DI SYARIKAT YANG DISENARAikan DI IRAQ STOCK EXCHANGE

ABSTRAK

Kajian ini bertujuan untuk menyiasat kesan kesedaran tentang penipuan, budaya beretika dan penyertaan dalam membuat keputusan ke atas penipuan korporat dalam kalangan syarikat yang disenaraikan di Iraq Stock Exchange, dengan memberi tumpuan kepada kesan moderasi tadbir urus korporat. Asas teori untuk penyelidikan ini dibina berdasarkan teori agensi. Pendekatan kuantitatif digunakan untuk mengumpul data daripada sekumpulan responden yang terdiri daripada akauntan dan juruaudit, yang dipilih melalui teknik persampelan rawak mudah. SPSS dan Smart-PLS digunakan untuk menganalisis data. Soal selidik telah dijalankan sebanyak tiga kali. Pertama, ujian rintis dijalankan bagi menilai kebolehppercayaan soal selidik yang melibatkan 100 responden. Kedua, borang soal selidik telah diedarkan kepada 100 responden bagi menjalankan analisis faktor penerokaan (*exploratory factor analysis*), yang bertujuan untuk mengesahkan bahawa pembolehubah kajian sebenarnya boleh mengukur kesannya. Ketiga, borang soal selidik telah diedarkan kepada 389 responden untuk menjalankan analisis faktorial pengesahan (*confirmatory factorial analysis*). Hipotesis langsung pertama mengkaji kesan kesedaran tentang penipuan terhadap penipuan korporat. Hubungan ini menunjukkan kesan negatif dan signifikan, pada nilai $\beta = -0.101$, nilai- $t = 3.857$ dan nilai- $p = 0.000$. Hipotesis langsung kedua adalah berkaitan dengan kesan penyertaan dalam membuat keputusan ke atas penipuan korporat. Hasil kajian menunjukkan kesan negatif dan ketara bagi hubungan ini, pada nilai $\beta = -0.849$, nilai- $t = 36.727$ dan nilai- $p = 0.000$. Hipotesis ketiga adalah untuk mengkaji kesan budaya beretika terhadap penipuan korporat. Hasil kajian menunjukkan hubungan yang negatif, namun tidak ketara, pada nilai $\beta = -0.021$, nilai- $t = 1.153$ dan nilai- $p = 0.249$. Selain itu, tadbir urus korporat menyederhanakan kesan budaya beretika dan penyertaan dalam membuat keputusan ke atas penipuan korporat. Implikasinya, syarikat harus memberi tumpuan kepada tadbir urus korporat untuk meningkatkan kesedaran tentang perbezaan yang relatif antara kesedaran tentang penipuan, budaya beretika dan penyertaan dalam membuat keputusan.





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LIST OF ABBREVIATIONS

AFP	Association for Financial Professionals
CF	Corporate Fraud
CFA	Confirmatory Factor Analysis
CG	Corporate Governance.
CMV	Common Method Variance
DM	Decision Making
EC	Ethical Culture
EOCA	Equal Credit Opportunity Act
EFA	Exploratory Factor Analysis
FA	Fraud Awareness
ISE	Iraq Stock Exchange
KMO	Kaiser-Meyer-Olkin
NHS	National Health Service
SEM	Structural Equation Modelling
SPSS	Statistical Package for Social Science

LIST OF APPENDICES

A Survey Questionnaire

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces the research agenda of this study. It outlines the background of the study, problem statement, research questions, research objectives, significance of the research, definition of key terms, and organization of the remaining chapters.

1.2 Research Background

A corporate fraud scheme is a type of illegal activity that occurs when an individual or company engages in activities that are unethical or dishonest. It usually involves the use of a manipulative or deceptive technique to gain an advantage over the other parties. Besides being carried out by an individual, corporate fraud schemes also affect the



company's other employees and external shareholders. It can be hard to catch corporate fraud, especially since it involves creating and implementing effective policies and procedures. Having the proper security measures can help prevent it from happening. This type of crime is considered a white-collar crime (Wilhelm, 2004).

Although it can be carried out in various ways, corporate fraud usually involves the use of confidential information and the exploitation of sensitive assets. This type of activity is usually hidden from the public by the actions of the company's legitimate business practices. In addition to being carried out by an individual, corporate fraud also affects the company's other employees and external shareholders.

In most cases, a company's financial records are altered to present a rosy picture of its profits and revenue. Doing so would allow the company to attract more potential investors and improve its stock price. Other types of fraud could be carried out to hide the company's weaknesses, such as a slow revenue growth or a huge expense. Falsifying financial records can also help protect a public company's stock price from dropping (Viton, 2003).

Other types of corporate fraud aim to misrepresent or conceal a service or product that the company is currently developing or has in its possession. Instead of investing in refurbishing, repairing, or even redesigning the product, the fraudsters would rather hide or divert the issues affecting the product by making it look like they are minor or non-existent. This can be done if the company does not have the financial resources to address the issue or if revealing the problem could cause customers and investors to lose money.





If a company or individual claims that it is investing some of its money into various types of investments that are expected to gain high returns, but in reality, the funds have been diverted or spent elsewhere, this type of corporate fraud is usually carried out.

Fraud can also be classified as internal fraud and external fraud (Dyck, Morse, & Zingales, 2010). Internal fraud is that caused by the management and employees of the companies such as embezzlement, or forgery to achieve their goals and personal interests. Whereas the external fraud comes from companies and destinations outside the target the company by using unethical methods such as identity fraud by hijacking bank accounts or phishing emails, Email purporting to be from Chief Executive requesting sensitive information or transfers of funds (Jans, Lybaert, Vanhoof, & Van Der Werf, 2008).



Undoubtedly, among the current complex businesses and human activities, the corporate fraud has become economic destructive phenomenon and it has been extended into various domains over the world at different aspects of the national levels (Morgan, 2019). The concept of corporate fraud also has taken many forms and types that depend on the nature of the corporate business, so it is needed goal of the organizations to control this negative activity and develop effective measurements to reduce the frauds practices (Peters & Maniam, 2016). Although many companies have started to make serious actions and decisions such as security and precautionary actions to limit and control the chances of fraud, they fail in this objective and still need more effective actions (Morgan, 2019)





Corporate fraud has become a crime which imposes both laws and the society to be accountable to enact modern and effective legislative and social procedures to reduce the potential damages for the companies like bankruptcy and corporate collapse (Arlington, 2016). Corporate fraud also has been emerged because of group of reasons that expand this issue such as negligence of senior corporate management and poor follow-up among middle and lower management levels (Khanna, Kim, & Lu, 2015).

However, obtaining internal corporate information increases the likelihood of fraud detection by 15% (Dyck et al., 2010). However, the process of reducing and eliminating

Both financial misstatement and embezzlement of money can affect the growth of businesses. Since these issues are prevalent in different regions and state, their impact on the business operations can vary. For instance, in the US, the tax rates and wages are different for different regions (Smith, 1998).

Being able to identify and accept the level of fraud and corruption in their local communities is a challenge for many business firms. This is why it is important that they continuously focus on their operational efficiency. Aside from being able to assess the level of fraud and corruption, the business firms also have to consider the impact of this on their profitability.

The lack of priority given to the infrastructure of health facilities during the two decades of conflict in Iraq was one of the factors that led to the country's unstable situation. It is now apparent that the country's political and security leaders are





incapable of handling the various crises that are currently facing the country. Due to the widespread corruption and the lack of effective government institutions, the citizens of Iraq are forced to suffer from the effects of foreign aid.

Corporate fraud is difficult if there are no essential elements that are integrated with each other to be an interactive framework that will detect process and eliminate fraud. This research has three key concepts need to examine their impacts in this regard, namely Fraud Awareness, Ethical culture, and participation in decision-making. However, the current study has been designed to investigate the potential roles of those concepts in control and detect fraud activities among the companies listed in Iraq Stock Exchange market.



There are so many different types of fraud that it can be hard to keep track of

them all. However, since fraud is so common, it's important to distinguish between the various types of it and their characteristics. This type of fraud occurs when a person is targeted by a criminal who uses various methods to steal their identity. Some of these include phishing scams, identity theft, and advance fee schemes. An employee or manager of an organization commits an act of occupational fraud, which is when they intentionally deceive the company. Examples of this type of fraud include lying to shareholders and investors, and stealing from the company. An external fraud occurs when vendors or other individuals try to scam an organization by claiming that they did the work for the company, and demanding bribes. However, customers can also do it themselves, as they can sometimes steal from the organization by making bad checks or by returning stolen goods. Due to the rise of technology, organizations are also more vulnerable to theft (Barker, et al 2008).





As mentioned previously, the corporate fraud has become contemporary risky phenomenon in the last few years that has influenced the most of economies over the world. This phenomenon has caused a large financial cost that caused also massive corporate collapse. Nowadays, the current businesses environments are aware of the risks that influence the international economies in general (In'airat, 2015).

The Association for Financial Professionals (AFP) in 2005 conducted studies on the risks of corporate fraud and ways to reduce it and prepare the companies on fraud control in ways that ensure the survival of the organization in line with its desired goals, and develop strategies for each year since 2005 to date. The corporate fraud is one of the largest threats to the economies of countries. In 2007, 43% of the companies around the world have been exposed and are subject to fraud, and the number is increasing annually (Jans, Lybaert, & Vanhoof, 2009). Companies began to increase their focus to the issue of fraud that grown among the global financial crisis in 2008, but many companies failed to tackle corporate fraud and decrease the financial losses (Organisation for Economic Co-operation and Development [OECD], 2014).

A survey by the Association for Financial Professionals (AFP) in 2015 found that 62% of companies around the world are subject to corporate fraud, and that the cost of reducing this phenomenon is very costly and it is difficult to find appropriate solutions to reduce corporate fraud due to modern forms, methods, and ways of this fraud (Morgan, 2019). To protect companies from fraud forms, they have created both of internal and external control actions over all their activities, related stakeholders within the scope of their business (Wobschall, 2011) and imposed strict penalties against frauds (Dyck et al., 2010). However, the forms of fraud have taken various





methods so that they can't easily detect because of the organizational ignorance of the control process over the different managerial and operational levels (Wobschall, 2011).

Corporate governance is one of the modern concepts that has been emerged to organise the interrelationships between various stakeholders of the companies and provide group of principles formulate the structure of ownership and regulations govern the companies (Baten & Amadi, 2020), and this may have a role to reduce or control corporate frauds. The effective corporate governance practices are those align the interests of corporate's goals and principles with the governance mechanisms required to add value into the company's experience with the principal and agent interest. Therefore, the corporate governance principles could decrease the extent of fraud activities and develop the welfare of various stakeholders like shareholders where some employees are likely to fraudulent practices (Shi et al., 2017). This argument can be extracted from the insights of a theory relevant of this issue called cognitive evaluation theory associated with agency theory perception. The theory of cognitive evaluation has been introduced by Boal, Cummings and Deci which is mainly informative in this stream, as it shows how the external measurements and control can be productive of countering the frauds. This theory is also more proper when generally the behaviours are matter of a people' greed (Taherinia et al., 2017).

The corporate governance has introduced some methods could use to reduce corporate fraud. It regulates the cooperative work among all levels of management and internal departments; as well it enacts some legislative works to control the fraud activities. Furthermore, corporate governance developed some incentive policies, such as physical, ethical, or functional incentives, for employees who help the management





to detect fraud, and this could be done by encouraging the employees to work efficiently to achieve two goals and disclosure of fraud to reach these incentives (Dyck et al., 2010).

The concept of culture is sometimes used to indicate the sets of behaviours and the individuals' attitudes and beliefs which suggest how the firm's management should behave. However, the culture is mainly influencing the behaviours and it represents some various aspects that interact with different behaviours (Di Miceli, 2019). In the same context, the arguments have suggested the fraud awareness and culture integrate the fraudsters, corporate structure, and cultural determinant to reduce the fraud activities. All organizations often confront security systems associated with illegal practices. However, the human behaviours are interacting with multiple factors that influence each other. In this regard, the ethical culture of the organizations can be concentrated to impact the corporate fraud (Ocansey, 2017).

The involving in decision making among the organisations has also witnessed to provide opportunities to the either decrease or increase the levels of frauds among the corporates. Otherwise, giving the employee greater chances to be engaged in the important organizational decisions is discussed over some studies and showed favourable outcomes in whistleblowing the frauds and play a role in detecting these destructive activities over the lifecycle the corporate (Rizwan, 2019). This indicate the increasing attention of the corporates to make all stakeholders being active members in the decisions especially those closely linked with the members' interests and influence their life aspects.





Therefore, the current study aims to explore the role of fraud awareness, ethical culture, and participation in decision making on the corporate fraud with moderating role of the corporate governance. The strength of this research also lies in the existed limited works address those variables together in a developing context of Iraq as far as the researcher knows. In return, this is expected to contribute to fulfil the paucity of the current scholarly studies that handle this issue. The study is also designed to show the fraud awareness, ethical culture, and participation in decision making is linked to a conceptual framework that will illustrate the ways and means of against corporate fraud during this research study.

Over the current complexities of the business environment, the organizations have started to give attention to the awareness of the financial crimes and educate their employees into this critical topic. Tremblay-Boire and Prakash (2015) indicated a difference over the different types of organization in terms of developing the rules and regulations that mainly the non-profit organization are less likely to provide more information and disclose informative practices could help in detecting and preventing the fraud forms. Thus, the awareness of frauds forms and activities remain in an infancy phase with little attempts to educate the different stakeholders with this important issue. The public financial regulations are minimal that need to add to the vulnerable companies. Companies' management might be unaware of the key responsibilities or not well informed about the better ways to convey the important information to identify the potential cases of fraud. Therefore, the fraud awareness has become more critical than ever before due to the negative consequences of collapse the successful business (Astria and Adhariani, 2019).





1.3 Problem Statement

The lack or poor of stock market performance may lead to having some forms of frauds, as stated by Sivan (2016) which confirmed that the weakness in the overall performance of the Iraq Stock Exchange market motivate the corporate fraud to be more increased which leads to lower rates investment in the Iraqi market. Also, this weakness contributes in distortion of the financial reputation of Iraq for both foreign and local investors which influence the investments in Iraq (Sivan, 2016) and they feel with lower levels of satisfaction because of this activity.

The annual report of the Iraq Stock Exchange for the year 2019 confirmed the existence of large percentages of corporate fraud in various ways, as 34% of the companies listed on the Iraq Stock Exchange did not submit financial disclosure (35) companies out of (103). Also, companies according to the Supervision and Inspection Committee have used methods of corporate fraud, which makes us pay attention to the extent of the seriousness of corporate fraud in various methods that lead to the decline of the indexes of the Iraq Stock Exchange, according to the annual report issued (Abdul Salam, 2019).

Corporate fraud has come in many types in Iraq alike other countries, but the most common fraudulent type is manipulation of the important financial information. However, many companies attempt to unauthorized giving financial information or sometimes false the financial claims in their records in order to avoid paying the tax and fees.



The effects are the key reasons that make the governmental agencies in Iraq to enforce integrating the accounting principles to prevent falsification of financial statement and records of companies. Another type of fraud appear in different states is identity theft when an individual violates and uses another individual's or even company own personal details to take or elude something (Kiymaz, 2020). As this type could be conducted individuals or a corporate, identity theft is increasing problem over the economies that have weak legal system and complicated security situation like Iraq, which this increases the chances of growing identity thefts and other misconducts due to the absence of legal strong sentences and code of ethical standards. In fact, the official statistics showed some cases of fraud forms in Iraq were limited for unknown reasons maybe due to technical or political interventions and economic system, also the records of shareholders' complaints almost not found to evaluate this phenomenon (Buccirossi et al., 2017).

Moreover, the multiple events happened in Iraq like American war since 2004 and global pandemic of COVID-19 have motivated the rates of corporate frauds in Iraq which this pushed Iraq into critical situations and enforced the official for more quick and effective actions to save the country from the expected global collapse (Yaqoob et al., 2020). Many challenges face Iraq economy such as dropping the prices of oil into historic prices and dropping down the demand for oil has deepen the economic problems of Iraq (Yaqoob et al., 2020). Moreover, the existing awareness of the corporate fraud forms and poor implementations of the corporate governance regulations in Iraq have maximized the troubles of Iraqi economic which need more governmental effective measures to face these challenges (Talab, 2019).

There are some evidences demonstrated absence of fraud awareness like cultural ethics which encourage growing the different forms of fraud, weaken loyalty for the state and society and make the frauds extends into wide range aspects of activities and find out the negative effect of corporate frauds for many companies (Ali et al., 2018). Furthermore, the vulnerability of the national economic security in Iraq like poor monitoring unethical behaviours also support growing the cases and shapes of fraud among the companies which destabilize the economic bloom and impact the chances to reach prosperous integrity system and boost the transparency over the practices of companies listed in Iraq Stock market to enhance the efforts towards lower fraudulent behaviours and more virtuousness over managing the companies (Ahmed & Ibrahim, 2020). Other study assured that There is a significant relationship between fraud methods and the corruption increasing and fraud cases or financial fraud in Iraqi market (Jabbar & Jabbar, 2018).

1.4 Research Objectives

This research would struggle to get better understanding through examining the effects of fraud awareness, corporate governance, ethical culture, and participation in decision-making to corporate fraud over the Iraqi traded companies listed in stock exchange market. Therefore, the research has formulated the following objectives:

1. To examine the impact of fraud awareness on corporate fraud in companies traded in Iraq Stock Exchange.

2. To examine the impact of ethical culture on corporate fraud in companies traded in Iraq Stock Exchange.
3. To examine the impact of participation in decision-making on corporate fraud in companies traded in Iraq Stock Exchange.
4. To examine whether the corporate governance moderates the impact of (fraud awareness, ethical culture, and participation in decision-making) on corporate fraud in companies traded in Iraq Stock Exchange.

1.5 Research Questions

The research aims to address the following key questions at the end of the study and

expect to find out comprehensive overview of the issue of this study through

following research questions:

1. What is the impact of fraud awareness on corporate fraud in companies traded in Iraq Stock Exchange?
2. What is the impact of ethical culture on corporate fraud in companies traded in Iraq Stock Exchange?
3. What is the impact of participation in decision-making on corporate fraud in companies traded in Iraq Stock Exchange?
4. What does the corporate governance moderate the impact of (fraud awareness, ethical culture, and participation in decision-making) on corporate fraud in companies traded in Iraq Stock Exchange?



1.6 Conceptual Framework of the Research

Companies around the world are involved in establishing a defensive system that aim to reduce fraud among corporates by investigating the causes and forms as well the effects of fraud. Fraud has complex forms due to diversity of the global businesses and the wide transactions between different entities of the companies that some of them suffer from fraud. However, it seems difficult to reach a decisive solution to this issue as many types of fraud make the detection process being very hard (da Costa, 2017). It should be noted that several studies that have undergone great discussion in the area subject to this study, therefore this study examines the different viewpoints of employees from all levels of management in companies listed on the stock exchange (Dyck, Morse, & Zingales, 2013).



The indicators of the Iraqi stock market are part of the Iraqi economy's indicators and are designed to provide a comprehensive view of the country's economic situation. They are also part of the market's indicators due to the various factors that have affected the performance of the market indicators. The various factors that affect the development of the Iraqi stock market include the establishment of joint-stock ventures and the attraction of foreign and national savings.

Financial fraud can affect the growth of businesses in different regions as these activities have a significant economic impact on the area. The level of these crimes varies depending on the state and region where they are located. Being able to identify and prevent fraud and corruption is a challenge for many businesses operating in different regions. This is because the level of corruption and fraud in these areas can





vary significantly. However, the most important thing that the business firms can do is focus on improving their operational efficiency.

Although it is important to consider the accuracy of the financial statements, it is also important to note that forensic accounting is a part of the solution when it comes to identifying fraud. In the US, Canada, and the UK, this type of investigation is carried out to detect accounting fraud. The forensic accounting process is carried out by certified public accountants (CPAs) who are responsible for carrying out investigations and examinations to determine the truth about the information that is communicated to the public. This type of investigation is usually carried out to protect the interests of the public.



developing countries, the need for forensic accounting is becoming more prevalent. This type of investigation is also beneficial in fighting against these types of malpractices. In addition to being able to identify fraud, forensic accounting also helps in preventing the citizens from being affected by these activities. Although forensic accounting is commonly used to identify fraud, it is still in its early stages of development. For instance, in Iraq, it is still very challenging to combat the various types of fraud that are commonly carried out in the country. The Figure 1.1 shows the conceptual model this research with the key variables being examined with interrelations with each other and the possible effect of the identified predictors such as fraud awareness, ethical culture and participation in decision making in predicting the corporate fraud measuring perception of respondents in the Iraqi companies listed in the stock exchange market.



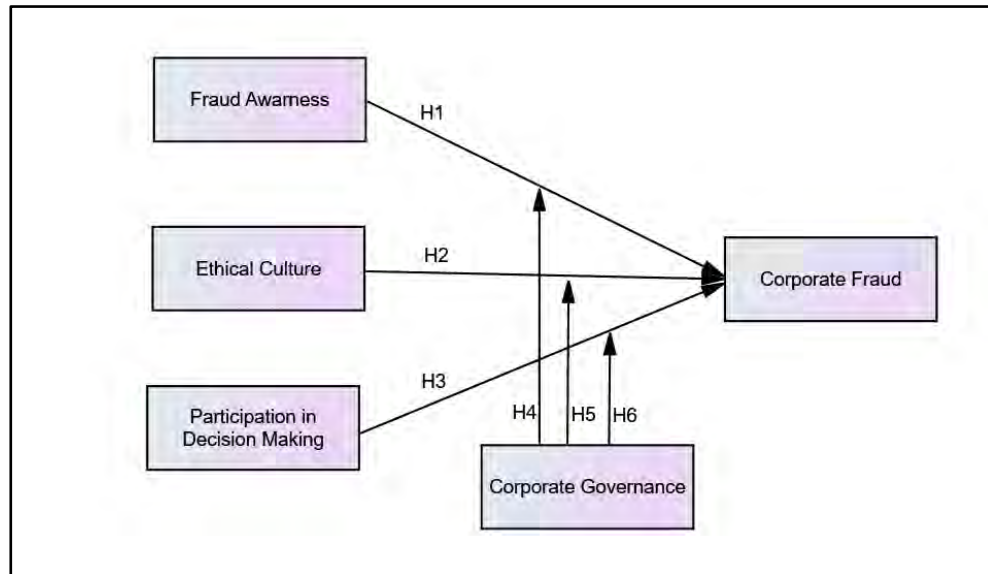


Figure 1.1. Research Conceptual Model

References: Fraud awareness (Siregar & Tenoyo, 2015), Ethical culture (Sami et al., 2016), Participation in decision making (Behraves et al., 2020), Corporate fraud (Tan et al., 2017), Corporate governance (Pargendler, 2016), Iraq Stock Exchange market (Briston, 2017).

1.7 Research Hypotheses

According to the above discussions, the study hypothesizes both types of the hypotheses called direct and moderating hypotheses in this section to examine the proposed effect of the underlying variables involved in this research. So, the following research hypotheses would be illustrated as follow:



1.7.1 Direct Hypotheses

H.1 There is a significant impact of fraud awareness on corporate fraud in companies traded in Iraq Stock Exchange.

H.2 There is a significant impact of ethical culture on corporate fraud in companies traded in Iraq Stock Exchange.

H.3 There is a significant impact of participation in decision-making on corporate fraud in companies traded in Iraq Stock Exchange.

1.7.2 Moderating Hypotheses

H.4. Corporate governance moderates the impact of fraud awareness on corporate fraud in companies traded in Iraq Stock Exchange.

H.5 Corporate governance moderates the impact of ethical culture on corporate fraud in companies traded in Iraq Stock Exchange.

H.6 Corporate governance moderates the impact of participation in decision-making on corporate fraud in companies traded in Iraq Stock Exchange.

1.8 Research Significance

The study in this section provides both of theoretical and practical significance of the current study which examined in a one model with different variables in a developing





context which also didn't examine before as a whole in single conceptual framework in a particular context in specific developing country.

1.8.1 Theoretical Significance

The current study has attempted to provide more grasp of the significance of fraud awareness and how the corporate governance rules and practices associated with ethical culture could mitigate this issue. As well, the role of participation in decision making in detecting and overcome the corporate frauds in terms of achieving great levels of governance and ethical practices in the companies listed in Iraq Stock market. Also, this study would support the decision makers and practitioners regarding to the factors that addressed the reasons and forms of corporate frauds and offer the effective methods that could help in reducing this negative phenomenon which in turn beautify the image of the companies. The results of this study as well stand together with other studies to examine the moderating role of corporate governance in the impact of (fraud awareness, ethical culture, and participation in decision-making) on corporate fraud.

However, the study considers one of the studies which test the effect of corporate governance, ethical culture and participation in decision making process to corporate fraud in the companies listed in the national stock market of Iraq, which might contribute largely in the developing context. The study intends to fill the gap linked with the insufficient and incomplete studies which examine these variables effect which benefit many stakeholders of the company.



This study contributes to the future studies in same area in offering best base for corporate fraud avoiding for previous studies; previous literature contributes less attention in covering integration components of corporate fraud avoiding. Secondly, this research opens new research direction to utilize from corporate governance moderation role in the impact of (fraud awareness, ethical culture and participation in decision-making) on corporate fraud in companies traded in Iraq Stock Exchange to enhance the financial jobs and assessing objectives. This direction teaches companies to achieve their planning outcomes by establishing a safe organizational system in all their operations and departments which will in turn, gain high profitability and minimize non-legal practices such as fraud.

In Iraq, fraud is regarded as one of the most difficult crimes to investigate. Due to the nature of the crime, it is considered as a secret act. In most cases, there are no fingerprints or evidence for such crimes. However, in some cases, there are witnesses who can testify to the involvement of the criminal organizations. There are various factors that need to be considered when it comes to the investigation of corruption. One of these is the independence of the investigators. This is because, if the investigation is carried out at the level of government, it can be very embarrassing for the government (Barker, et al 2008).

1.8.2 Practical Significance

The results of the current study would contribute to the company's management and decision makers in providing effective measures to protect the companies and maintain



their market value with a remarkable reputation by implementing greater corporate governance rules and ethics to engage in the operational activities to get ride the frauds. Further, the study would contribute to the need to raise adequate fraud awareness and sufficient corporate governance implementations in Iraq. It may also lead the efforts and strategies by providing effective methods and measures for the control systems and ethical practices to clearly integrate new managerial approach like participation in the decision making.

The results also would denote the significance of fraud awareness and implementing ethical practices and corporate governance standards in different sectors, since applying these standards support the company's competitive advantage and business survival. Therefore, it is a need for all companies in Iraq to consider this issue over their policies and strategies to reach a great outcome. The benefits for the companies from this study can be viewed as increasing the market value, profits, reducing cost, enhanced stakeholders' interests and leverage the effectiveness in the key operations.

1.9 Research Scope

This study focuses on the development of a conceptual model to reduce corporate fraud activities by involving some factors like fraud awareness, ethical culture, participation in decision making, and corporate governance. To improve the performance of listed corporations in the Iraq Stock Exchange over long term, the research integrates those variables which have designed to analyse contemporary concepts in terms their effect



on corporate fraud among the companies listed in national stock exchange market of Iraq. Accordingly, this work has designed based on quantitative study method by collecting perceptions of the sample towards some important concepts and the interrelationships between them. The sample of the study consists of various levels of managerial position of financial and audit positions working in companies listed in the Iraq Stock Exchange. This sample is subject and more closely to the financial decisions, central organizational issues, and the phenomenon of fraud companies in different forms, which most the companies suffer from it. And the findings of the study will be provided and generalized to all companies in the State of Iraq in different industries.

1.10 Research Gap

Research gap in the current study is the limitation among the available studies that addressed the issue of fraud awareness with associated other factors in the developing context which has unique characteristics of the businesses. Including several complicated concepts for being examined in economy has multiple challenges like Iraq is a great research opportunity that could help in meet the academic requests of more examination the obstacles and dilemma of developing economies to find out sufficient solutions for their problems (Talan et al., 2017).

The justification for considering corporate governance moderator variable that it is implies the principles that acts upon the relationships between two variables and changes its direction or strength. For example, corporate governance may moderate the relationship between fraud awareness and corporate fraud prohibit, the relationship

might be stronger for companies with corporate governance than for companies make interest for fraud awareness without corporate governance principles.

However, the knowledge gap also exists through the shortage of conducted researches that addressing the phenomenon of corporate fraud and the factors would predict and handle this issue. In Iraq, there is little presence of the governance practices and the deficiencies at different levels of governance rules and regulations that would limit the corporate fraud in the companies in Iraq Stock Exchange. There is no, in the limited knowledge of the researcher, a study discusses the relationships between fraud awareness, corporate governance, ethical culture and participation in decision-making and corporate fraud in the Iraq Stock Exchange. Thus, this study is designed to fulfil this gap and provide reliable findings could help the practitioners in this area of study.

1.11 Research Rationale

Jans, Nadine, and Vanhoof (2010) noted that corporate fraud is one of the most important topics in the business world and should be studied in all its aspects. This phenomenon is part of the corporate entity and is closely linked to its business, but it is a harmful part and a source of concern for all companies in all its activities, causing enormous material losses, sometimes amounting to billions of dollars (Gupta & Gupta, 2015). Dyck et al. (2010) indicated also that fraud is a very important issue and its causes should be explored to reduce it as much as possible.



Many scientific researchers have conducted on how to deal with the corporate fraud phenomenon, and they identify its causes to create appropriate solutions to reduce or eliminate it (Gupta & Gupta, 2015; Kanoria, 2016; Kurant, 2014; Preber & Thornton, 2016). In Iraq, the past years have witnessed a weakness in attractive more investments and the performance of listed companies in the Iraq Stock Exchange also has been deteriorated as stated in Sawwan (2016) which also emphasized since 2009 and 2010, there was a fragility in the performance of companies listed in the Iraq Stock Exchanges due to different forms of corporate fraud, where the Iraqi government has tried to address this phenomenon through the establishment of risk management departments within the framework of corporate governance, but to no avail (Sawwan, 2016).

The increasing complexity of the business environment has led to the need for more experienced accountants to handle the various issues related to governance and accountability. There is a demand for these individuals in various sectors. According to alabdullah et al., in 2013, there was a demand for forensic accounting in almost all the areas of the business. Due to the lack of modern tools and techniques, accountants have a hard time identifying and preventing malpractices in their businesses. This is why forensic accounting has gained widespread attention. This type of accounting is carried out through a variety of techniques and procedures designed to help accountants identify and prevent these issues. This study aims to address the issue of how to prevent and detect fraud and corruption in the operations of Iraqi corporations in the region (Viton, 2003). It will also suggest the establishment of effective forensic accounting procedures in order to enhance the detection and prevention of these activities. Unfortunately, the role of forensic accounting in identifying and preventing corruption and fraud in Iraq is not widely acknowledged. This paper aims to provide a





comprehensive view of the various techniques and procedures that are used in this type of accounting.

However, in the significance of this study comes from the focusing on factors causing corporate fraud and give practical implications to control this issue. These proposed factors were not together analysed which could help in protecting the companies through detection the corporate fraud activities and develop groups of solutions to eradicate the root of this phenomenon completely. In addition, to provide measurements enable the corporate to build up cooperation with other similar industries to penalize the fraud practices when appeared. The study also could summarize its importance as follow:

- 1- The important of leverage the awareness towards the corporate fraud.
- 2- The urgent need to capture the interests of companies in elimination the corporate fraud in listed firms in the Iraq Stock Exchange.
- 3- The growing challenges of listed companies in Iraq Stock Exchange and effects on their survival and competition among the market.
- 4- The need to develop effective future strategies and policies to reduce the corporate fraud activities conducted in listed firms in Iraq Stock Exchange.
- 5- Provide a scientific base for future studies that are interested in the variables of this study mainly corporate governance and corporate fraud.





1.12 Operational Definitions

1.12.1 Fraud Awareness

Being aware of the risks associated with fraud can help a business protect itself from potential fraud. The fraud triangle is a statistical model that explains the various factors that can lead to a person committing fraud. It can help a business identify the likelihood of fraud happening. A potential fraudster may find a way to justify his actions by developing a belief system that allows him to justify his actions based on the constraints of his own financial need. For example, if the fraudster has a financial need that is not met by the employer, he may justify his actions by stating that he should get paid for



One of the main steps that a business can take to prevent fraud from happening is breaking the fraud triangle. This process can take months or even years to get started. During this time, the organization can potentially detect and prevent the crime from happening. Aside from being knowledgeable about fraud risk, conducting fraud workshops can also help employees become more aware of the risks that their organizations face.





1.12.2 Ethical Culture

A corporate culture refers to an organization's way of working and how it embodies its core values. While it can be used to describe an organization's culture, it usually only occurs when the company has adopted those values. There may be multiple cultures within an organization, and management can't force a single culture across the board. Culture is made up of the various individuals that work for the company, and it can vary depending on the geography and population of the organization (Wilhelm, 2004).

This could mean that different cultures exist in different locations. The link between culture and compliance is very important, as it influences an organization's ethical behavior. Having the right people and the right culture can make a huge difference in an organization's success. A culture can be described as anything from a variety of locations and languages to rituals and role models. However, regardless of the type of subculture that an organization has, it's important to have a set of core values and ethical behavior that are consistent with them. Having a strong ethical culture is also very important, as it can lead to more formal processes and systems. This can be determined by the various factors that are involved in the hiring process, such as the training and performance management systems that are used. This process can additionally help determine if the fair process doctrine is applied consistently in the organization (Yuniarti, & Ariandi 2017)





1.12.3 Participation in Decision Making

It is a mutual responsibility of the different levels of management in making the important decisions associated to the daily operations of the company, and allow all employees to be vital part in this process to share their ideas to achieve the organizational objectives (Behraves et al., 2020), how an individual perceives about the Participation in decision making in Iraq Stock Exchange market.

1.12.4 Corporate Fraud

It is the deliberately intents to misuse the various company assets like financial operations and other activities and illegal activities taken by company employee to deceive the several stakeholders in dishonest manners (Tan et al., 2017). how an individual perceives about the corporate fraud in Iraq Stock Exchange market. There are many forms of fraud that can occur, and it can affect the quality of public services. It can be caused by intentionally misleading or withholding information, which can lead to monetary loss. The goal of the inspector general is to prevent and address fraud involving public property and funds.

1.12.5 Corporate Governance

It is the set of different governance principles and systems mechanism in place with some constraints which regulate and organize the interrelations between different





stakeholders among the company. And it is being measured by ownership, BOD and Audit Committee Also it could be defined as the methods which the shareholders who finance the companies ensure of getting back their investments as well it refers to the system used of laws and rules to control the organizational operation (Pargendler, 2016), how an individual perceives about the corporate governance in Iraq Stock Exchange market

1.12.6 Iraq Stock Exchange Market

It refers to place where group of markets and trade exchanges conduct regular activities like buying, selling and issue the shares through defined formal deals under stated rules and regulations (Briston, 2017).

1.13 Thesis Outline

Based on the above, the chapters will be divided into the following main sections:

1.13.1 Chapter 1: Introduction

It introduces the key subsections and important components of any academic work. This chapter describes study background, knowledge gap, problem statement, research



objectives, research question, research hypothesis, theoretical framework of research, research rationale and operational definitions of the research.

1.13.2 Chapter 2: Literature Review

It presents the relevant studies which discussed and addressed the same concepts used in the current study as well examines the relationships between those variables in different contexts. Various resources were involved in this section to ensure updated references and works that could enrich the arguments. This chapter has also subsection of underlying theories associated with the issue of this study.

1.13.3 Chapter 3: Methodology

This chapter presents the method used in this study which includes research design, defining the study population and sample method used to select the appropriate sample, developing an instrument of the study with clear and adequate measurements to examine the research concepts, and the way of collecting and analyzing the data. Furthermore, testing validating the instrument to ensure its reliability and validity to collect the require data.

1.13.4 Chapter 4: Findings

This chapter describes the obtained results after conducting the data analysis, which shows the hypotheses testing and statistical outputs of characteristics of the sample. It has several of tables present the required outputs of the key analysis performed using statistical software of SPSS and SmartPLS 3 to test the study hypotheses and providing descriptive and reliability analysis to draw a clear picture of the sample and the perceptions of the respondents towards the statements of the research questionnaire.

1.13.5 Chapter 5: Discussion & Recommendations

This chapter presents the discussions of the key results obtained from the data analysis with provides conclusion and recommendations for the interested population and sample. It also shows how the study achieves its objectives and answers the key questions related to the relationship between the study variables. Then, the chapter shows the studies that align with the current study results and the contributions provided from this study with the major limitations encounter the study and limit its results.

1.14 Chapter Summary

The key aim of this research is to investigate the relationships between the fraud awareness, corporate governance, ethical culture, participation in decision making and corporate fraud in companies listed in Iraq Stock Exchange market. Further, this chapter

presents the research background and discussed the issues of corporate fraud in Iraq and the implementation of corporate governance. The chapter also has highlighted and discussed the problem statement, research questions motivate this study and the objectives needed to achieve at the end of study. The rationales behind this study which trigger to conduct this research as well the main operation definitions used with focus on the study scope. The next chapter presents the relevant literature review including the key concepts of the research. It also introduces the underlying theories, to develop the conceptual model and hypotheses.