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**“Impact of Destructive Leadership and Corporate Governance on ethical practices in  
Financial Sector of Pakistan”**

By

**Syed Muhammad Farid Zafar**

Supervised by  
**Dr. Amir Michael**

A Thesis Submitted in partial fulfillment of the requirement for the degree of  
Doctorate in Business Administration (DBA) to the Durham University Business  
School

**December 2021**

## **Abstract**

Pakistan is one of the prominent developing countries and has gone through significant changes in the financial sector since its independence in 1947. The banking industry's financial stabilisation, in Pakistan, has focused on financial institutions' legitimacy, innovation, implementation and provision of high-quality services. It has widened the scope of financial markets, reduced the inefficiency levels in banks, and eliminated or decreased the corruption ratio. However, fraud and corrupt banking practices still prevail in Pakistan, which is mainly attributable to the organisational culture based on the norms and values of the people working in it; these norms and values are articulated by the leaders. The primary role of the leader is to enforce legitimate and transparent banking services. A leader with a destructive style of leadership will embed values that are not congruent with organisational goals and that rather may lead to the achievement of personal goals. A good leader, on the contrary, directs a bank towards its development and growth within the banking industry, as with great power comes great responsibility: it is leaders who can make breakthroughs. In other words, the success of management, employees and the organisation greatly depend on the leadership style. In Pakistan, the banking industry's leadership style is a little biased by the attributes such as the character, ethics, beliefs and values of the leader, and all these traits make every leader unique and distinct. Leadership comprises of four main factors: the leader him- or herself, the follower, situations that arise, and communication. A good leader is important for any organisation for creative thinking, structural reasoning, innovation and creation of new procedures and processes, and for effective and efficient collaborative engagement. The organizations in Pakistan including the financial institutions are bound to follow the Code of Corporate Governance issued by Security Exchange Commission of Pakistan (SECP) but the research suggests the otherwise.

In this research I have analysed the impact of Destructive leadership and defiance of Code of Corporate Governance on fraudulent activities and unethical practices in the banking industry of Pakistan. The focus has been Islamic banks in which interviews of top management (leaders) of Islamic banks and Auditor of Central Bank of Pakistan were conducted to enquire about their best practices and compliance with the Corporate Governance policies. The followers (middle managers have been surveyed using Destructive Leadership Questionnaire (DLQ) and inquired about the Leadership styles and practices of their supervisors and leaders. The research has highlighted both theoretical and practical aspects of this sensitive area in the banks. The analysis

projects the destructive behaviours the leaders possess which brings toxicity in the banks. Not much has been researched with regard to destructive leadership and defiance of Code of Corporate Governance and its relationship. I found gap in theory and practical aspect of how both are being practiced in the financial sector. The research results depict that followers believe that there is toxicity in Leadership and noncompliance of corporate governance from their leaders which leads to demotivation and unethical practices. Finally, recommendation for enhancing the corporate governance code and strict vigilance and audit of compliance of same is given to implement a fool-proof system which doesn't allow misappropriations of funds and other unethical practice by the leaders.

## **Statement of Copyright**

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## **Declaration**

*“I wish to declare that this thesis is my own original work. All the data has been gathered and analysed by me and for maintaining the confidentiality with regard to organizations and people participated in interviews and surveys the data has been anonymized and coded.”*

## **Acknowledgements**

Firstly, I would like to thank the Almighty Allah for blessing me with the strength, determination and patience to complete this thesis even in these difficult times. Throughout my DBA journey there were good and bad times and He helped me overcome them.

I would like to pay sincere gratitude to my supervisor Dr. Amir Michael for his expert advice, guidance and support throughout this journey and also the Durham Doctoral Coordinators especially Anne Bailey who was always welcoming and available with her support.

Although Dad you are not here with me, but you can see from up there that what I started is coming to an end. Mom you have been a great support and always pushed me to complete the degree and remembered me in prayers.

The most important support came from the most important people in my life, my wife and kids who always maintained and provided the best environment at home and kept bringing me on-track to finish the research. Their contribution is immeasurable whereby they provided strength, care, love and enthusiasm to me for completing this research and making the family proud.

Lastly, I would acknowledge my sisters, friends, colleagues who have been a great source of motivation and enthusiasm in completing this research.

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## **Abbreviations**

Corporate Governance (CG)

Destructive Leadership (DL)

Toxic Leadership (TL)

Fraud Triangle (FT)

Pakistani financial Sector (PFS)

Independent Directors (INDs)

Politically connected directors (PCDs)

Security and Exchange Commission of Pakistan (SECP)

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

International Monetary Fund (IMF)

Code of Corporate Governance (CCG)

Pakistan Institute of Corporate Governance (PICG)

Chief Risk Officer (CRO)

Benazir Income Support Programme (BISP)

National Database and Registration Authority (NADRA)

Department for International Development (DFID)

Global Positioning System (GPS)

Independent Selling Organisation (ISO)

European Central Bank (ECB)

Crescent Standard Investment Bank, Ltd. (CSIBL)

Global Financial Crisis (GFC)

Board of Directors (BoD)

Banking Companies Ordinance (BCO)

Shariat Appellate Bench (SAB)

## **Keywords**

Corporate Governance

Destructive Leadership

Toxic Leadership

Fraud Triangle

Destructive Leadership Questionnaire

## Chapter 1 – Introduction

### *Background to the Study*

The banking industry plays an important role in the financial stability of the national economy (Naseem et al., 2012). In Pakistan, investment, commercial and Islamic banks are common resources for supplying funds, and they are the main sources of financing that support national economic performance. Husain (2004) stated that the Pakistani banking industry plays a major role in financing and it accounts for 95% of the positive financial relationships behind the economic growth of the nation. Over the past few years, the banking industry in Pakistan has created a major link between national economic growth and the financial sector. Effective leadership and change management have facilitated the growth of the banking sector in Pakistan. Leadership is the process of organising a group of individuals to work collaboratively to achieve common goals and objectives (Marquardt, 2000). Leadership is essential for any organisation for many reasons, including managing innovation, motivating employees, handling interpersonal issues, linking strategic planning and implementation, and managing organisational change. According to Rowe (2001), leaders can influence employees to achieve the common goals and visions of the organisation.

Einarsen et al. (2007) stated that destructive leadership is a repeated and systematic behaviour by the leader, manager, or supervisor that can violate the legitimate interests of firms by obstructing and/or undermining organisational resources, goals, or tasks or the motivation/effectiveness, job satisfaction, or well-being of employees. Destructive leadership behaviour results in damage to the firms the leaders are entrusted to lead. Destructive leaders may not intend to harm employees or organisational resources, but due to their insensitivity, lack of confidence or thoughtlessness, they effectively do so. Some leadership positions are extremely difficult for some individuals to fulfil successfully. Some leaders have impossible tasks, such as leading corrupt and incompetent firms that resist appropriate processes. These types of environments result in leader failure, as no leader can succeed. Most of the leaders who fail to succeed do so because of a lack of ability and poor judgement. Schaubroeck et al. (2007) stated that destructive leader behaviour creates a huge negative effect on followers.

Destructive leadership can result in undesirable outcomes. The behaviours of destructive leaders include overestimating personal capabilities, ignoring reality, and disregarding the views of subordinates. Destructive leadership includes imposing objectives on constituents without their agreement or regard for their long-term welfare. Kellerman (2004) stated that if destructive leadership is defined with respect to harmful outcomes, then it is possible for bad leaders to generate desirable outcomes and good leaders to generate bad outcomes. For example, the worst business and political leaders—Dennis Kozlowski, Joseph Stalin, Charles Keating and Adolf Hitler—at times brought value to their constituents. Elangkovan and Said (2013) stated that good education does not make a successful leader in organisations. Being a successful leader is not the most important aspect of leadership; however, many consider being a nurturing leader the most important aspect. Thus, this study examines destructive leadership and compliance of corporate governance and its effect on the followers who are influenced by destructive leadership practices in the banking industry of Pakistan in detail.

Every business across the world attempts to generate more revenue. However, this has always been subject to the constant exposure of businesses to the risks of financial fraud. According to Pinedo and Xu (2017), bank fraud entails the loss of organisational finance due to inadequate or failed internal process, people or systems emanating from external events. Regardless of the experience of managerial performance, banking fraud is a form of destructive leadership that impacts the finances of companies negatively (Leonidou et al., 2015). Many financial institutions in Asia have recognised fraud as the most significant risk for any organisation. In that respect, putting enough strategies in place to prevent bank fraud has always been an uphill task for most managers. Besides, lots of money, time and energy are needed to establish policies to promote bank fraud management strategies (Leonidou et al., 2015).

The banking sector in Pakistan is regulated by the State Bank of Pakistan, which also acts as the exchequer for all financial institutions operating in the country. It is the responsibility of the State Bank of Pakistan to implement monetary policies in line with the national objectives of Pakistan (Edirisuriya et al., 2015). Its key mandate is to ensure that laws governing finances are up to date and organizations follow the Code of Corporate Governance in true letter and spirit. It also issues licenses to financial institutions and commercial banks. Therefore, it is the ultimate responsibility of the State Bank of Pakistan to prevent fraud in the banking sector. A lot has been

written about the financial crisis in Pakistan, but the concept of fraud has been neglected, even though it has left many banks in untenable situations, including total collapse.

### ***The role of leadership in corporate governance***

The relationship between leadership and corporate governance is explained by scholars who argue that leadership is the most essential aspect of corporate governance. According to Wang and Zhou (2016), leadership is a critical element of corporate governance. They concluded that an organisational accounting activities and other control practices are interdependent with organisational management and are directly linked with the sustainability of business operations and its success in the market. The organisational Board of Directors and its Chief Executive Audit have obligations to assess, influence, and monitor such measures. A study by Webster (2015) concluded that leadership creates good corporate governance by making an efficient use of leadership roles, involving efficient Board of Directors (BoD) and the arrangement of operational activities to employees and its relevant stakeholders. Eva et al (2018) added in the literature that the linkage between the firm's structure and the accounting process design is maintained by leadership that is affected by the firm's strategy, organisational culture, and its other relevant control practices. The survey conducted by Uhl-Bien and Carsten (2007) found that the BoD have their primary obligation to ensure that the organisational corporate governance mechanism is in line with the company's stakeholders' interests like customers, employees, suppliers and other community members. Another study was carried out by Weakley and Magistrate (2017) who argued that the role of Chief Auditing Executive (CAE) is to assess the internal audit functions of the company that offers the highest level of certainty over the firm's control market. The present study refers to the previous studies and explain how inadequate leadership focus from the upper management of the company through corporate governance and the control governing accounting processes results in declining ethical principles. This is also previously contented by Wang and Zhou (2016) who argued that leadership is an important aspect of corporate governance and revealed that the organisational accounting activities and its associated controls were interrelated with the firm's management and is directly related to the sustainability of the business functions and its successful operations in the market. A study by Gao and Zhang (2019) also concluded that the firm's leadership over its governance and particularly the internal control over the accounting and financial reporting activities affect organisational performance in the market. Nevertheless, leadership over the corporate governance is helpful for the firm and also enhances its external

competitors as the knowledge linked with the operational activities as best part of the firm. For instance, when there are write-ups or the guidelines related to the control mechanism under corporate governance and there are judgments related to accounting, leadership over corporate governance is created through adequate configuration of leadership roles. In addition, there is an alignment of operational activities with the senior managerial staff of the company, leading to the robust process of corporate governance under effective leadership style.

In general, scholars have recognised the issues with the corporate governance and their lower ethical consideration is, inadequate focus on leadership and the control mechanism that governs accounting and financial reporting activities. Overall, this process ends up in the declining organisational efficiency. Furthermore, a study by Cheng et al. (2018) also found that if there is inadequate control on the financial reporting activities, the firm faces failure in identifying risks and are unable to mitigate them over the accounting process. Mathew et al. (2018) further contended that when there is adequate focus on the leadership strategy from the upper management of the company like Board of Directors, Chief Auditing Executive; it ends up in the ineffective organisational processes like poor control on internal environment, declining focus on internal audit etc. When there is inadequate focus on leadership from upper management, the accounting workers do not get any inspiration and are demotivated to attain organisational goals. Eventually, organisational efficiency is adversely affected. Mesu et al. (2015) also argued that when a leader does not have any skills or adopts wrong leadership style, it leads to declining organisational commitment, leading to overall decline in the firm's efficiency and its governance mechanism is poorly affected. Nonetheless, leadership from the Board of Directors and Chief Auditing Executive officers is critical for the firm to create efficient and effective corporate governance mechanism that is essential for stringent control on accounting principles and to maintain ethical standards in the company.

### ***Purpose of the Study and Problem Statement***

This research explores corporate governance, destructive leadership and its effect on followers who are influenced by the negative side of leadership in the banking industry in Pakistan. It sets out the role these followers play in nurturing this type of leadership to pursue individual goal achievement instead of working towards organisational goals, leading to organisational corruption and non-compliance with corporate governance, which in-turn leads to fraud. To be specific, the aim is to understand the elements of leadership that lead followers to assist their

leaders by becoming loyal to their leaders instead of the organisation, and in turn supporting the leaders in achieving their objectives (i.e., the point where followers bypass organisational objectives to demonstrate loyalty to the leaders). This is a gap in the research, and it is the foundation of this research (Essien, 2001).

Lipman-Blumen (2005) stated that destructive leaders pursue their self-interests through various toxic behaviours of high or low intensity that severely affect followers, communities, and organisations. This kind of leadership can also be called despotic and exploitative leadership (Schilling, 2009). Notable contributions have been made to identifying types of destructive leadership styles, but the style for this study is the deliberate behaviour of a leader to harm an organisation by encouraging subordinates to pursue motives that are illegitimate, through the use of harmful methods of influence on the followers (Kresikova et al., 2013).

This research explores the leadership pitfalls in the banking industry in Pakistan and it analyses the types of destructive behaviours leading to organisational corruption through studying followers. The focus of the study is on the followers' types of personalities, needs, inclinations towards their goal attainment, and how certain followers nurture destructive leadership in the banking industry (i.e., motivation). The followers fall into two groups: colluders and conformers (deKluyver, 2000). All this is studied within the contextual aspects that breed destructive leadership, such as the leader's level of engagement and the effect of destructive behaviour on the motivation of followers, and when conformers (who comply unwillingly) become colluders, they "happily serve the interests of their destructive supervisor" (Padilla et al., 2007, p.9).

### ***Significance of the Study***

This study gives a detailed description of implementation of Corporate Governance framework and destructive leadership and its effects on followers who are influenced by destructive leadership practices, leading to organisational corruption in the banking industry in Pakistan. In Pakistan, the banking industry has witnessed drastic changes since the country's independence in 1947. Regarding the financial growth of the banking industry, Pakistan has aimed to improve the integrity of its financial institutions, bring technological transformation with high-quality services, broaden capital markets, improve the performance of banks with respect to the increasing efficiency levels, and reduce opportunities for corruption by reducing the number of state-owned banks (Aurangzeb, 2012). Leadership plays a major role in the growth and development of the banking industry. Leaders may be able to make or break any individual within

the organisation. In general, leadership styles, competence, culture and skills are the major factors that strengthen organisations to achieving overall objectives and performance.

At the same time, leadership is a crucial factor affecting employee, organisational and management success. The knowledge and skills possessed by leaders are generally influenced by their traits and attributes, such as character, values, beliefs and ethics. In general, the skills and knowledge of leaders contribute directly to the leadership process, but other attributes make leaders unique. Leadership, followership, situations, and communication are the four main elements of leadership. Leadership is an essential factor for effective collaborative engagement, creative thinking, participative engagement, structural rationalisation, creation, and innovation of new procedures and processes. Destructive leadership is seldom entirely or absolutely destructive, which means that most leadership has both bad (undesirable) and good (desirable) results.

Destructive leadership is selfish, because it focusses more on the leader's needs, goals and objectives than the needs and goals of the organisation or other employees (Rosenthal and Pittinsky, 2006). Destructive organisational results are not only the result of destructive leaders, but they also depend on susceptible followers and particular environments (Kellerman, 2004). The effects of destructive leadership are identifiable in the outcomes of the organisation that compromise the quality of life for the constituents (Hogan and Kaiser, 2005). Destructive leadership can damage followers' psychological well-being. The target of destructive leadership can vary, however: there is personal destructiveness (towards oneself) and organisational destructiveness (towards internal members and external stakeholders).

This research studies the attributes of destructive leaders that encourage followers to adapt their behaviour to pursue the leader's goals, leading to organisational corruption. Many researchers have done extensive work on destructive leadership and its causes and effects on organisational culture, but very few have touched upon the threshold at which followers succumb to pressure from the leader, participating in corruption and fraudulent activities to achieve the leader's goals, leaving the organisational goals as the last priority. In other words, this is the point where followers bypass organisational loyalty to prove their loyalty to the leader.

Therefore, this research identifies the overall effect of non-compliance of corporate governance by Islamic banks and destructive leadership on the organisation, the relationship between the attributes of the leader and the leader's relationship with the followers that induces followers to engage in corruption and disloyalty to the organisation. In other words, it explores

how the leaders of various departments in banks bypass the code of corporate governance implemented in the banks. Moreover, it will also explore how leader-follower relationship encourages organisational corruption, leading to disloyalty in the banking sector of the country, focusing on Islamic banks. Figure 1 gives a graphical representation of this approach.

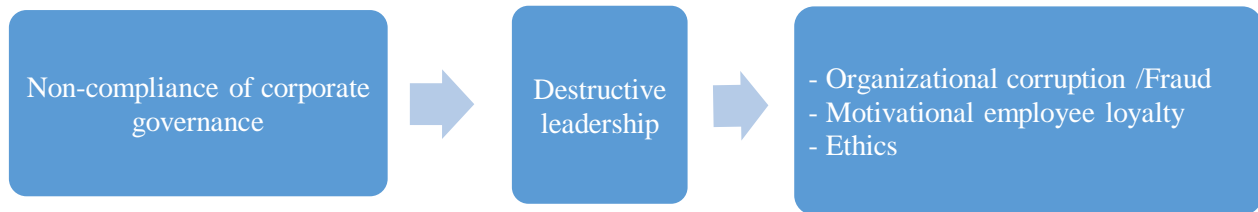


Figure 1. Graphical Representation of the Research Approach

### ***Research Questions***

The research questions are as follows:

1. How can destructive leadership & fraud affect followers' motivation levels, employee loyalty and ethics?
2. How do destructive leadership and fraud along its followership create organizational corruption?
3. Does noncompliance to corporate governance and fraud promotes destructive leadership?
4. How is fraud linked to destructive leadership?

### ***Justification for the Study***

The banking industry needs effective leaders to manage day-to-day operations and to create long-term strategies. Leadership is a crucial factor that can make or break individuals within an organisation, and it has the ability to affect aspects of employee, organisational and management success. Therefore, there is a strong need for good leadership practices to motivate followers in the banking sector. Moreover, the Corporate Governance mechanism provides a guideline to the best organizational practices and non-adherence to it would promote demotivation among employees and unethical practices. The main purpose of this research is to investigate destructive leadership and compliance of Corporate Governance and how it influences followers's motivation, ethics and Fraud in the banking sector and also to propose strategies to weaken the effect of destructive leadership practices. The research focuses on Islamic banks in order to evaluate the

destructive leadership and non-compliance of corporate governance practices in the sector where there is an additional layer of Audit and control i.e. Shariah Audit and compliance. Researcher has worked in the banking sector and has been part of disciplinary action committee where case of fraud, embezzlement and non-compliance of code of conduct were discussed. This created interest to deep dive and explore what role the leadership of the banks play to stop them and is their any role of the leadership to promote it.

## Chapter 2 - Literature Review

### *2.1 Introduction*

The financial sector in Pakistan covers a broad spectrum of financial institutions, including commercial banks, specialised banks, national savings schemes, insurance companies, development finance institutions, investment banks, stock exchanges, corporate brokerage houses, leasing companies, discount houses, microfinance institutions and Islamic banks (Akhtar, 2006). These institutions put forward a wide array of product and services pertaining to both sides of the balance sheet—assets and liabilities. There has been an increased provision of financial services in Pakistan during the past few years; however, 90% of the total financial assets of the system are held by commercial banks.

There has been a substantial growth in the financial sector of Pakistan attributable to multifaceted financial reforms; the vigorous and persistent promotion of these reforms over a decade or so has supported economic growth in Pakistan (Delis, 2012). Moreover, the intricacies and weaknesses typical of banking operations have been reduced drastically since the implementation of these reforms, resulting in a banking sector that is strong and sound (Husain, 2011). Like Delis (2012), Husain (2011) asserted that there has been an enhancement in the banking sector with respect to the number of banks and credit acceleration, inspiring a degree of competition in the banking sector, and that this is attributable to the liberalisation and deregulation he holds as core pillars of reform.

The banking industry in Pakistan accounts for close to 95% of the country's financing (Rammal and Parker, 2013). The different types of banks in Pakistan include investment, commercial, and Islamic banks (Ahmad et al., 2010; State Bank of Pakistan, 2018). The regulation of the banking industry is under the control of the Pakistan Central Bank, a state-owned bank that is obligated to regulate the issuance of bank notes countrywide (Rammal and Parker, 2013). The bank was established in 1948. However, it is important to note that the current state of the banking industry in the country is a product of many changes that have taken place since 1947 (Ahmad et al., 2010; Rammal and Parker, 2013).

The development of the commercial banks in Pakistan mainly occurred from 1947 to 1974, when the government decided to nationalise the banks as a response to the concerns over unequal economic growth (Ahmad et al., 2010). During the era of rapid growth in commercial banking, the

Pakistan Central Bank also allowed the entry of foreign banks (Rammal and Parker, 2013). In 1979, the government announced strategies to introduce an interest-free economy and it empowered the Pakistan Central Bank to spearhead the reformation of the banking system in accordance with the new regulations (Ahmad et al., 2010; Rammal and Parker, 2013). In the 1980s, the Pakistani government further attempted to Islamise the entire banking sector (Rammal and Parker, 2013). However, the Pakistan Central Bank lacked the advisory facilities and resources to implement the move to an interest-free economy, and in 1985, the government admitted its failure to implement an interest-free economy fully. The inability of the government to address the commercial, accountability and regulatory challenges associated with the interest-free model led to the current dual-banking system, which consists of Islamic and commercial banks (Rammal and Parker, 2013). In 1990, the government officially denationalised the banking system and privatised the sector (Rammal and Parker, 2013).

To maintain a functioning economy, a safe, sound, and secure financial system is always needed. However, due to a dysfunctional political environment, the Pakistani financial sector (PFS) confronts multiple regimes and traumatic experience. Pakistan's government has seen nearly 25 governments since its freedom in 1947, comprising democratic, provisional, and martial regimes. As a result of different economic policies and increased political intervention in reaction to authoritarian and democratic regimes, the PFS suffered (Ahmad and Arafat, 2020). Pakistan developed a banking industry controlled by international banks when it gained freedom.

As a result of, this circumstance the government has begun the process of privatising banks. According to Khalid and Hanif (2005), between 1991 and 2003, the percentage of government ownership fell from 100% to 20%. In the meantime, the state allowed private and international banks to expand in the region in order to gain a competitive edge. Pakistan's banking industry grew dramatically as a result of the privatisation decision. The idea of Corporate Governance is novel not only in the banking industry but also in Pakistan's entire capital market.

Developing economies adopt Corporate Governance activities from advanced nations despite having a different institutional climate than advanced economies. As a result of weak organisations and specific capital market frameworks, policies tailored for advanced economies may be unsuccessful in developing economies (Gugler et al., 2003). In an attempt to recognise Corporate Governance processes around the world, it is important to see interesting and complementary perspectives in organisations. Mangena et al. (2012) and Filatotchev et al. (2013)

also stated that the institutional setting has an effect on board and management frameworks. According to Acemoglu et al. (2003), categorising the institutional gaps between rich and developing nations is important. It's also important to understand recent research on the impact of institutions on Corporate Governance. Some people in developing nations, such as Pakistan, can use their authority to influence organisational factors in order to obtain personal advantages and ambitions. As a result, managing and improving this information is crucial for promoting Corporate Governance in an improving world like Pakistan.

In Pakistan, bank committees are made up of a mix of executive, non-executive, and independent directors (INDs). As a result, they consider the existence of INDs differently from the board composition in order to analyse the effect of board independence. According to agency theory, the involvement of INDs is critical for performing a decent monitoring function, which aids in achieving higher competitiveness (Frag and Mallin, 2017). Board independence, as a critical corporate governance characteristic, encourages profitable development by incredibly positive bank results (Kumari and Pattanayak, 2017). According to Dalton et al. (1998), a more independent panel will achieve improved financial results because it plays a better oversight function since independent directors are said to be good monitors.

A strong audit committee attracts more funds from depositors, which are then invested, resulting in increased efficiency. Kyereboah-Coleman (2008) previously discovered a connection between audit committee meetings and results. Although, according to Contessotto et al. (2014), an audit committee only eliminates audit risk by improving financial reporting integrity; as a result, companies follow regulatory criteria to escape fines and sanctions, which protects company sustainability.

## ***2.2 Theoretical Framework***

This framework explains the research problem. It shows how destructive leaders or prevalent leadership styles affect followers' motivation levels and support of the leader in implementing strategies, which later affects organisational goals and objectives. The overall intention of this study is to ascertain the effect of destructive leaders on organisational culture and the effect of the created culture in further nurturing destructive. Moreover, the effect of non-compliance of corporate governance and DL on Ethical practices, Fraud and employee motivation is also studied and analysed.

### 2.3 Conceptual Framework

This conceptual framework clearly describes the effect of destructive leadership in banking. It mentions that the employee motivation, ethical practices, and fraud in the organisation may be affected by the destructive leadership and non-compliance of corporate governance in banking. Figure 3 sets out this framework.

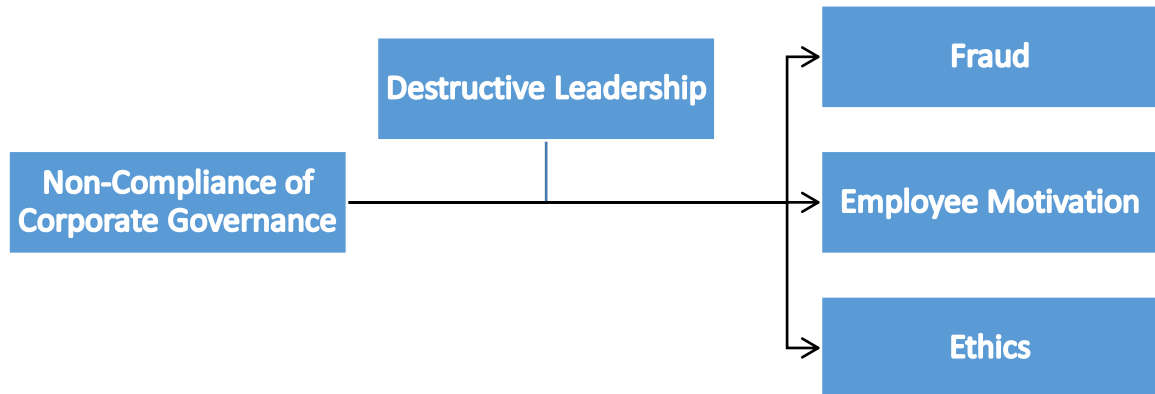


Figure 2. Conceptual Framework.

#### 2.3.1 Variables

The dependent variable for this study is Fraud, Employee Motivation and Ethics. The independent variables were Destructive Leadership and Corporate Governance. The quantification of corruption and fraud will be made through the questionnaire for destructive leadership. Secondly, corporate governance would be measured qualitatively by assessing leaders, auditors etc. Moreover, destructive leadership would be measured by the number of employees being the victim of depression, anxiety, emotional exhaustion, and fatigue (Tepper et al., 2011). This is because destructive leadership distresses not only the employee's work attitudes and behaviours but gives workers a lot of undesirable psychological reactions.

### **2.3.2 Research Hypotheses**

- H1: Inability to develop and motivate subordinates represents significantly destructive leadership significantly.
- H2: Harassing employees/acting in a brutal bullying manner significantly affects compliance with corporate governance and represents destructive leadership significantly.
- H3: Lack of credibility within the organisation represents significantly destructive leadership significantly.
- H4: Acting in an insular manner relative to other groups in organisation represents significantly destructive leadership significantly.
- H5: Lying and other unethical behaviour significantly affects non-compliance/adherence to corporate governance (or represents destructive leadership) significantly.
- H6: Exhibiting inconsistent and erratic behaviour significantly affects compliance with corporate governance significantly.
- H7: Overly emotional and negative psychological characteristics of leaders represent significantly destructive leadership significantly.
- H8: Non-compliance with corporate governance promotes destructive leadership.

### **2.4 The Banking Industry in Pakistan**

For the sustainability of banking systems and the economic development of any nation, long-term profitability is critical. The banking sector is considered the most important part of the corporate sector, which is a core element of a state's economies. Development in banks and other financial institutions is strongly linked to economic development (Haris et al. 2019). As a result, banks' long-term growth is critical in Pakistan, as it allows them to keep on playing a supportive part in the economy. To maintain a successful market a safe, sound, and secure financial system is always needed. Even so, due to an unpredictable political environment, the Pakistani financial sector (PFS) confronts diverse financial frameworks and traumatic experience. Pakistan's government has seen nearly 25 governments since its freedom in 1947, namely democratic, transitional, and martial regimes (Haris et al. 2019). As a result of dictatorial and democratic

governments' differing fiscal plans and increased government involvement, the PFS has struggled a lot.

In a politicised economy, banks are more likely to lend more money at lower interest rates and to favour politically connected businesses. These preferential bank loans support politicians' election campaigns while impeding management's capabilities to attain long-term business growth. have a negative impact on board decisions by enabling more political pressure to achieve political goals at the cost of banks (Lau, Lu and Liang, 2016). The political links were first discovered primarily focusing on Tullock (1967), Stigler (1971), and Krueger (1974). Baum et al. (2010) claimed that the government pressures politically influential institutions (particularly state-owned financial institutions) to lend to public initiatives and political allies at cheaper interest terms leading to capital misappropriation and reduced profits. They said that throughout presidential elections, public financial institutions perform poorly. According to Fan et al. (2007), government borrowing decisions are influenced by directors' ideological ties which have a negative impact on bank results. According to Haris et al. (2019), PCDs (Politically Connected Directors) are more likely to lend to political-connected businesses at low-interest rates and with simple terms.

PCDs are more likely to finance companies belonging to policymakers at cheaper interest costs and with simple collateral conditions in order to fund related politicians' election campaigns, restricting leadership's efforts to execute a successful business model. Micco et al. (2007) recently endorsed the particular opinion that during the time of government campaigns higher funding by state-owned institutions transforms into lower interest rates, reducing bank profitability. According to the resource-based theory, companies can gain a strategic edge by gaining access to a variety of advantages as a result of their political relations (Cheema et al. 2016). As a result, PCDs on bank committees can have political objectives in mind, causing the bank to execute inadequately. According to Haris et al. (2019), grasping hand concept, directors named by politicians are more concerned with political goals than with welfare programs.

The current banking industry in Pakistan is characterised by a diverse pattern of ownership, which includes both foreign and local investors (Ahmad et al., 2010). According to the State Bank of Pakistan (2018), there are three types of scheduled banks in the country: public-sector banks, domestic private banks and foreign banks. The public-sector banks are made up of commercial banks and specialised banks. The public-sector commercial banks are involved in deposit

mobilisation and credit extension, and they deal in short-term collateralised lending. The specialised banks lend credit in designated sectors such as the agricultural and industrial sectors or they offer lines of credit. The specialised banks are governed under special legislative acts and not the banking law (State Bank of Pakistan, 2018). The domestic private banks are owned by private investors and are incorporated locally. The foreign banks have head offices in foreign countries and international branches in Pakistan. The Islamic banks in Pakistan can be established under the private sector, as commercial banks or as stand-alone institutions unlike commercial banks, Islamic banks are built on the principle of no interest in financial activities (Rammal and Parker, 2013). Islamic banks offer financing products that are compliant with sharia guidelines. Among the 29 domestic banks in Pakistan, there are six full-fledged Islamic banks and 23 conventional banks. There are more domestic banks (29) than foreign banks (four) as shown in Table 1. Among the domestic banks, domestic private banks are more than public sector banks. Table 1 provides a summary of the different types of banks in (State Bank of Pakistan, 2019).

*Table 1 Banks in Pakistan and Their Branches*

Group or Type of Bank	Dec-19		Jun-18		Dec-17	
	Banks	Branches	Banks	Branches	Banks	Branches
<b>Pakistani Banks</b>	<b>29</b>	<b>14,594</b>	<b>29</b>	<b>13,683</b>	<b>29</b>	<b>13,618</b>
<b>Public Sector</b>	<b>9</b>	<b>3,323</b>	<b>9</b>	<b>3,198</b>	<b>9</b>	<b>3,188</b>
Commercial	5	2,654	5	2,543	5	2,534
Specialised	4	669	4	655	4	654
<b>Domestic Private</b>	<b>20</b>	<b>11,271</b>	<b>20</b>	<b>10,485</b>	<b>20</b>	<b>10,430</b>
<b>Foreign Banks</b>	<b>4</b>	<b>9</b>	<b>4</b>	<b>9</b>	<b>4</b>	<b>10</b>
Total	33	14,603	33	13,692	33	13,628

*Source: State Bank of Pakistan. (2018) 'Statistics on scheduled banks in Pakistan.*

*'[http://www.sbp.org.pk/publications/schedule\\_banks/June-2018/Title.pdf](http://www.sbp.org.pk/publications/schedule_banks/June-2018/Title.pdf)*

*State Bank of Pakistan. (Dec -2019) [https://www.sbp.org.pk/publications/anu\\_stats/2019/Part-4/Appendix-II.pdf](https://www.sbp.org.pk/publications/anu_stats/2019/Part-4/Appendix-II.pdf)*

Developing a vigorous banking sector is a must for the growth of Pakistan's economy, as progress in the banking sector and the real economy reciprocally strengthen each other (A. Khan, 2012). The following sections describe the main types of banks.

### ***State-Owned Scheduled Banks***

As of 2019, the government have stakes in five banks including the National Bank of Pakistan (NBP) and Sindh Bank.

### ***Commercial Banks***

Currently, the banking sector of Pakistan has 15 commercial banks, offering financial services to the general public and companies such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit, including Bank Alfalah, Faysal Bank and HBL (A. Khan, 2012).

### ***Development Finance Institutions***

Development finance institutions deliver a structured package of support such as funding clients to respond to the imperfections and asymmetries in market, political or bureaucratic structures arising from financial risk, whether perceived or actual (A. Khan, 2012). The classical role of Development Finance Institutions is to seal the holes in the domestic fiscal and term-lending capabilities of developing economies. Such institutions include Asian Housing Finance.

### ***Foreign Banks***

The banking sector in Pakistan includes four foreign banks, including Standard Chartered Bank. Foreign banks have head offices in their parent country and one branch in Pakistan (A. Khan, 2012). They have their head offices internationally and a branch in Pakistan.

### ***Microfinance Banks***

Microfinance financial institutions offer microloans to people who are unable to access conventional loans to fill a hole within the financial services industry. Khushhali Bank and Tameer Microfinance Bank are part of the microfinance segment (A. Khan, 2012).

### ***Specialised Banks***

Specialised financial institutions in Pakistan have been set up to provide the credit requirements of multiple sectors of the economy. Industrial Development Bank and Zarai Taraqati Bank are specialised banks (A. Khan, 2012).

The banking sector is an integral part of Pakistan's financial sector; judged by any barometer, the dynamism and robustness of the banking sector stands out, and so the banking sector plays a vital role in the economic growth and development of the national economy (A. Khan, 2012). Commercial banks are immensely important for the government to meet the budget deficit resulting from increased expenditures and falling revenues. The budget deficit for a given

fiscal year is met by deficit financing, as the state covers the gap through borrowing from the banks (A. Khan, 2012).

Like other economies, the Pakistani economy does not operate in isolation, and it is connected to the global economy through increased international trade following economic development. The increasing trend of saving controls the money supply within the economy, and it influences several economic indicators, including inflation, resulting in economic sustainability and an increase in the capital formation (Akhtar, 2006).

In addition to these contributions of the banking sector, the development of the industrial sector is also attributable to the banking sector. Since the industrial sector is the backbone of any economy, it is crucial for any economy to have a sustainable and developed industrial sector. Commercial banks offer various types of loans for the expansion of the industrial sector in Pakistan. PICIC and IDBP are two of several industrial development commercial banks providing remarkable services for the growth of the industrial sector and resulting in the nation's economic development (Khan, 2012).

The banking sector of Pakistan and the wide-ranging financial sector have massive potential to foster economic growth and development. In recent years, various key structural reforms have been implemented, but more such reforms are required for the banking sector to expand to its full capacity for sustained economic growth.

### ***Islamic Banks***

The banking sector also includes Islamic banks, which follow the philosophy of sharia and its practical implications through the advancement of Islamic economics. They include Meezan Bank, Bank Islami, Dubai Islamic Bank, and Al Baraka Bank. Numerous commercial banks are now diversifying their operations to include sharia-complaint finance.

The Pakistan Islamic banking sector has seen moderate growth, with up to about 13.7% of Pakistan's total bank deposits in Islamic banks (State Bank of Pakistan, 2018). The governance of the Islamic banks in Pakistan, like the entire banking industry, has undergone various changes. Prior to the denationalisation and privatisation of the banks, the government took an active role in the governance of the Islamic banks. The state played a major role in the governance of the Islamic banks, with the aim of creating an interest-free economy (Rammal and Parker, 2013). The state was tasked with the development of the appropriate governance and regulatory frameworks that ensured that the Islamic banks adhere to the shariah laws (Rammal and Parker, 2013). However,

following the privatisation of the banking industry, the Islamic banks were given the sole role of ensuring that their products, practices and management approach adhered to sharia rules (Shahid et al., 2016).

The Islamic banks are governed by Sharia boards that the banks themselves establish. The importance of the sharia boards in the management of the Islamic banks in Pakistan was boosted by the Banking Law of 2000, which required the banks to establish these boards. According to the Banking Law of 2000, sharia boards have the mandate of ensuring compliance with principles of Islamic jurisprudence (Shahid et al., 2016). Sharia boards, as stipulated in the law, should have at least three members who are knowledgeable in Islamic jurisprudence. The sharia boards take an active role, under the sharia governance framework, in the determination of the governance and regulatory frameworks of the Islamic banks. The boards also provide expert opinion on the various engagements between the banks and their customers. They can refer matters to the State Bank of Pakistan. It should be noted that sharia boards are ranked higher than boards of directors, and they have the authority to issue determinations about matters presented to them. The boards are also mandated with correcting breaches in the sharia rules and foreseeing and addressing possible future challenges.

Concerns have been raised over the ability of sharia boards to regulate and govern the operations of Islamic banks effectively (Hamza, 2013). There are concerns on whether sharia boards are capable of enforcing adherence to the code of ethical responsibility and acceptable financial operations rules and practices. The concern over sharia boards' regulatory capacity is based on the fact that the members of the board are appointed and remunerated by the Islamic banks, which may lead to conflicts of interest. The Sharia boards also lack the authority to compel the banks to adhere to certain principles, and they only play an advisory role. However, despite the challenges sharia boards face, they play an important role in enabling Islamic banks to achieve better disclosure and transparency about financial operations and management practices, which is important in ensuring adherence to sharia rules.

### ***The empirical research on disclosure, shariah governance and shariah disclosure***

As literature exhibits that Islamic banking is based on equity and not debts, there is a need for all the Islamic banking and financial institutions to disclose their items in their financial reports. The rationale is explained by Schyns and Schilling (2013) as the procedure to reduce agency clash and the conflict of interest of different stakeholders. This is also the best way to attain bank control.

The benefits of disclosure are mentioned by Svanberg and Öhman (2013) who argued that in the banking, disclosure helps in correcting bank misvaluation and also it helps in augmenting the banks' liquidity and institutional interest. This is the reason; disclosure is one of the most critical factors that facilitates the enhancement of Islamic banking Institutions (IBIs).

Schultz and Harutyunyan (2015) mentioned that there are three key attributes of corporate governance that helps in enhancing transparency, disclosure and accountability of the banks. It also ascertains the prevention of stakeholders' interest. As per Harris and Jones (2018) IBIs should disclose all their information that is truthful to their stakeholders. Naidoo (2012) revealed that Islamic Banks should disclose their information to their stakeholders. As there are concerns about Islamic banks and stakeholders, the disclosure in the Islamic Banking Institutions also decrease information asymmetry (Neifar et al., 2019). Hence, there is emerging focus on the banks to disclose their information that is important for them to witness banks' improved performance. Tabash et al (2019) argued that the disclosure in banking system improves their performance and value in the market. Alongside, corporate governance also maximizes value of the Islamic banks as it includes rules and regulations that offer transparency and accountability to the company. This aspect prevents banks' shareholders and augments trust between the stakeholders of the banks. Chazi et al. (2018) found that corporate governance promotes disclosure of the banks that results in the improved financial performance as it reduces the banks' internal risk and improves their resilience to external stakeholders like suppliers, debtors, government, media etc. Under agency theory, governance of banking system proposes reduction in agency costs and enhances the governance of the banks, disclosure aspect and augments overall financial performance.

The role of Shariah disclosure on the banks' financial performance is studied by different scholars. For example, Tabash et al. (2019) carried out a longitudinal study on Islamic banks from 2009 till 2013 and found that there is a positive impact of disclosure on the financial performance of Islamic banks. Although some scholars have opposing viewpoint, like Ellili and Nobanee (2017) previously stated that there is a negative association of Islamic banks' disclosure and its financial performance. On the other hand, Elgattani and Hussainey (2020) had neutral viewpoint and mentioned that disclosure of Islamic banks do not have any impact on the organisational return on investment.

Recently, Albarrak and El-Halaby (2019) examined the impact of Shariah disclosure on the Islamic banks' financial performance for 120 nations for the year 2016. The authors disclosed

that the disclosure has positive impact on the overall financial performance of banks. Their study suggested that when there is an element of transparency and accountability, it improves the stakeholders trust on banks and enhances financial productivity of the banks. However, there are some scholars who had different findings like Haridan, Hassan and Karbhari (2018) examined the influence of disclosure on the Islamic banks and conventional banks financial performance. Their study used panel regression data and showed that the disclosure has a significant negative impact on the Islamic banks and confirmed that the disclosure has no influence on the UAE Islamic banking performance. All these varying results show that disclosure of the Islamic banking is critical to enhance its financial performance and determine stakeholder' trust on the basis of accountability and transparency of financial reports.

### ***Corporate governance in Islamic banking***

In addition to the Sharia boards, Islamic banks also have boards of directors and all other structures of corporate governance (Mollah and Zaman, 2015). The board of directors has the responsibility of overseeing the operations of the banks. It is also responsible for ensuring that the bank adheres to corporate governance guidelines. The board of directors carries out its role by setting policies and procedures for the management of the bank's operations. The members of the board of directors are selected by the shareholders, and therefore they represent shareholders' interests. The other important body in the governance of the Islamic banks is the audit committee, which plays an important role in the assessment of the financial records of the bank. The audit committee prepares a report from its assessment and it presents the findings to the board of directors along with the disclosures and risks. The audit committee works with the sharia boards to ensure that the operations of the banks comply with the laid-out sharia-based regulatory framework. The audit committee also ensures that Islamic banks' internal controls are well functioning, and that the daily operations of the bank comply with internal control policies. The other important part of the governance structure is the office of the chief executive officer, which has the mandate of mobilising funds and ensuring profitability as stipulated under the sharia rules. The chief executive officer reports to the board of directors. There are other managers at different levels and departments who report to the chief executive officer. It should be noted that sharia boards provide an additional layer of supervision, monitoring, and sometimes constraint to the corporate governance structure.

## ***2.5 The concept of Islamic banking system***

Islamic banking is defined as banking system that is in congruence with the Islamic ethos and value system and is governed by the Islamic Shariah principles and rules (Hanif, Tariq and Tahir, 2012). In other words, interest free banking system is a narrowed concept that denotes a range of banking instruments and operations that refuse interest-based system. In general, scholars have denoted Islamic banking as the interest-free transactions that are not allowed in Islamic Shariah and also refuse indulgence in matters that involve unethical and unsocial activities (Moin, 2008). In practice, Islamic banking is the transformation of conventional way of lending money into transactions that are reliant on tangible assets and real services. The Islamic banking model leads the system towards the attainment of economic prosperity in the given country. The philosophy of Islamic banking is taken from the Islamic Shariah. Under this Islamic Shariah system, Islamic banking is not allowed to deal with interest or *riba* (which is an increase in the principle amount taken as debt). In addition, the transactions having an element of *Gharar* or *Maisir* is also not allowed in Islamic banking Shariah as these elements are not valid in the eyes of Islam. Only those transactions are allowed that use investment tools allowed in Islamic Shariah and are linked to both profit and loss of the capital (Akram, Rafique and Alam, 2011).

In order to understand essential aspects of Islamic banking system in Pakistan, scholars have explained that there is a Commission established for Transformation of Financial System in the State bank of Pakistan in congruence to the Supreme Court Judgment on *Riba*. This was approved in the year 1999 and offered some essentials of Islamic modes known as; *Musharaka*, *Mudaraba*, *Murabaha*, *Musawama*, *Leasing*, *Salam* and *Istisna*. These all are different instruments of Islamic banking and are determined widely as essentials of Islamic banking in Pakistan and are used as guidelines to carry out Islamic banking activities in Pakistan.

## ***2.6. Islamization of banking system in Pakistan***

Scholars have explained interest free banking system as a narrowed concept indicating a range of instruments used in banking operations that do not follow “interest” (Sencal and Asutay, 2020). Islamic banking system not only avoid interest-based transactions, but it also helps economy to become “Islamic economy”. The islamisation of banking system in Pakistan can be traced back to the formulation of small saving banks in the rural space of Egypt in 1963 that was the preliminary formal activity for initiating the Islamic principles in financing activities (Lee and

Ullah, 2011). Presently, after decades, Islamic banking is an established industry and is one of the most important financial markets in contemporary system of banking. In Pakistan, the steps to initiate Islamic banking began in 1977. Pakistan is amongst one of the three countries that had been trying to execute interest free banking system at national level; however, it was a massive activity and switching over plan was not carried out in one time activity, but it was executed in different phases. Initially, in 1977-78, an ordinance was circulated to permit the inclusion of Mudaraba organisations Mudaraba certificates were disseminated in the market for raising risk capital. Later, changes were made in the Banking Companies Ordinance (BCO) Pakistan (1962) and added provision of banking finance through profit and loss sharing account, lease and hire strategy (Ahmad, Malik and Humayoun, 2010). In 1981, separate interest-free transactions initiated in the commercial banks that were operating in the national level of Pakistan so that consumers can deposit their money considering profit and loss sharing. About investment of such funds, bankers were permitted to offer financial assistance for only Government supported commodities on regard to sale on deferred payments with an implementation of mark-up on purchase price. In July 1982, banks were instructed to offer funds to meet the working capital requirements of trade and industry under the procedures followed in Mudarabah. In 1985, all the funds to all the organisations including people started to be executed in one of the mentioned interest-free modes. From 1985, commercial banks of Pakistan initiated an approach under which Currency of Pakistan (Rupees) was made interest free. Since then, banks were strictly prohibited from accepting any interest-bearing deposits and all the pertinent deposits in the banks were handled on the basis of profit and loss sharing basis. In current accounts of banks, deposits were accepted but profit/loss and share in profit was not allowed in such accounts. Although, two accounts were exempted from this; foreign currency deposits and on-lending of foreign loans and these two accounts continued offering deposits on interest-bearing concept. The State Bank of Pakistan has particularly mentioned 12 modes of non-interest bearing financing and are mentioned them in three broad categories and are now followed strictly by Islamic banking system in Pakistan. However, later Islamic scholars and experts declared that the procedure followed in commercial banks in Pakistan since 1985 is still not wholly Islamic. This was later affirmed by the Federal Shariat Court (FSC) in November 1991 as they claimed that the system in commercial banks of Pakistan are still based on “mark-up” procedure that is not allowed in Islamic Shariah. This concept of “mark-up” follows “buy-back guarantee” and is unislamic under the assessment of Shariah

Court of Pakistan. It was also held under Federal Court of Shariah that many principles of the laws for Islamic banking in Pakistan were offensive to the rulings of Islam, under its announcement dated 1991 and would stop to have effects from 1992, but the government of Pakistan and some banks appealed to the Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan. The appeals were then rejected in 1999, indicating that all the transactions involving interest would be stopped from 2001 (Butt et al., 2011). The court also concluded that the existing financial system of Pakistan were subject to the radical modifications and were initiated for the conformity with the Shariah. This also indicated the Government of Pakistan to establish within the given time frame, with the help of Commission for Transformation of the financial system and two Task Forces to execute the transformation process of Islamic banking system in Pakistan. The Federal Court of Shariah indicated that the Shariah Governance Framework and Shariah audit should be used as legal framework so that banking system conforms to the Islamic sanctions and an economy with Islamic banking system is strengthened in Pakistan.

### ***2.7. Islamic modes of financing***

Some notable Islamic modes of financing are mentioned by State Bank of Pakistan that can be used as Islamic banking instruments and are in compliance with Islamic Shariah.

#### ***2.7.1 Ijarah / Ijarah-wal-Iqtina' (Hire-purchase)***

This is a contract that is used in Islamic banking system and is used to finance equipment, building that facilitates customers against the mutual rental rate along with the unilateral undertaking by the bank or the customer. At the end of the lease period, the ownership is then transferred to the lessee. The promise is not an integral part of the lease arrangement and that aspect makes it conditional. The purchase price and the rental price are fixed primarily in a way that the bank attains its principle amount along with the revenue that is mostly highlighted in advance.

#### ***2.7.2. Murabaha***

Murahaba means that a sale transaction is carried out in which there is a mutually agreed upon profit rate. In technical terms, it is an arrangement of sale. In this, the seller announces his expenses and profit ratio. This is used by Islamic banks in Pakistan as its mode of financing and a technique that allows customers to make a formal request to the bank. In this, customer requests bank to purchase him a particular commodity. The bank carries out this activity for a particular amount of profit over the expenses incurred in availing that commodity. The whole process is established in advance.

### **2.7.3 Murabaha Muajjal**

This is contract followed in Islamic banks in which a seller makes a profit margin on his buying price and then permits the purchaser to pay that price of the commodity in future date in a lumpsum or even installments is also allowed. The cost of the commodity is clearly mentioned and the profit margin also mutually agreed upon. In such transactions, the price of the commodity is fixed either same as the commercial price or less than the commercial price.

### **2.7.4 Bai' Salam**

Bai' Salam is another mode of Islamic banking system of Pakistan in which salam is defined as an arrangement in which advance payments are made for the commodities to be received later. The seller affirms that he/she will supply some goods in the future date to the buyer. In this contract, buyer pays full amount at the time of contractual agreement and the commodities are received in future date. It is essential that the commodity quality should be mentioned in detail and does not leave any ambiguity that could end up in conflict between buyers and sellers. Here, it is notable that the objects for contract should not be gold, silver or currencies; rather, they should be goods only, other than these valuable items and are described as to the quality and quantity and labour work.

### **2.7.5 Ijara wa Istisna'a**

This is an arrangement made for the production of goods and commodities, permitting payment of cash in advance and provision of goods in future date. This particular arrangement is used for to assist and fund the construction houses, build bridges, roads and highways, install plants in manufacturing areas etc.

### **2.7.6 Mudarabah**

Mudarbah is the most common mode of Islamic banking system that is a type of partnership in which one party offers the funds whereas the other offers expertise and managerial skills and is called "Mudarib" who offers administrative skills. The revenue earned are then shared as "profit and loss" between the two parties on a pre-agreed rates; whereas, the loss tolerated by the capital provider.

### **2.7.7 Musharakah**

Another mode of Islamic banking is "Musharakah" that shows a linkage, created under the mutual consent of arrangement of the parties. In this arrangement, parties agreed for sharing loss and profit in a joint business venture. This is an arrangement in which Islamic banks offer funds to its customers. These funds are then mixed with the finances of business organisation and the

capital providers are enabled to take part in the management; however, they are not essentially needed to do so. The revenue is then shared amongst the agreement partners on the basis of some pre-agreed ratio; however, about loss, there is a condition that each partner will borne it in accordance to the proportion to their capital contribution.

#### ***2.7.8 Diminishing Musharaka***

Diminishing Musharakah is the last mode of Islamic banking system in which two parties agreed to enter the arrangement. These parties jointly own an asset. One of the parties affirms to sell its part of the ownership to the other party in periodical manner. Finally, when the contract ends, a complete ownership is then transferred from one party to another party. It is notable that the rental payments are reduced if periodical buying process is followed for the transfer of ownership in assets.

#### ***2.7.9 Regulations of Islamic banking in Pakistan***

Primarily, the research on Islamic banking was carried out by the Shariah scholars from Pakistan and from international countries (Khan and Shah,2015). In 1950s, the Islamic Economic Division was created in the Research department of State Bank of Pakistan and was given the assignments related to research on Islamic Economic System and it also acts as the secretariat to Council of Islamic Ideology. In 1970s, the steps to eliminate Riba (interest) initiated and various practical steps towards its elimination were appreciated by scholars. In order to bring Islamisation in banks and financial institutions in Pakistan, new rules passed by State Bank of Pakistan were later called “regulatory model of Islamic banking” and were massively appreciated as one of the most advanced models in contrast to any other model being practiced anywhere in the world. The financing procedures and instruments, considering “mark-up” exercised by banks was announced un-Islamic by the Federal Shariah Court in 1991 but when an appeal was made to the Shariah Appellate Bench of Supreme Court, the rulings by Federal Shariah Court were then suspended till further orders by the court was received (Komijani and Taghizadeh-Hesary, 2018). The Supreme Court’s Shariah Appellate Bench offered its judgment in December 1999. Directions were provided about the laws including interest would stop to have its impact by June 2001 and then it was later postponed till June 2002. At the same time, the government of Pakistan also announced to enhance its system of Islamic banking, gradually and compatible to Shariah rules. The steps to re-initiate Islamic banking in Pakistan were then announced in 2000 so that the country can be shifted to the interest-free economy and use flexible approach without making any disruptions in the whole economy Islamisation. In that, there were certain steps initiated like; allowance to create

new full-fledged Islamic banks in the private market; allowance to the conventional banks to make Islamic banks' subsidiaries and allowance to the present conventional banks to open Stand-alone Islamic banking branches (Rahmayati, 2021). Since then, a comprehensive regulatory framework comprising Shariah Governance Framework was initiated for the emergence of Islamic banking. State Bank of Pakistan has also been working in collaboration with the local and foreign financial institutions and regulators to promote standard and harmonised regulatory framework in congruence with the foreign best activities. It facilitated the growth of Islamic financial services, both locally and internationally. The Islamic banking department of State Bank of Pakistan issued wide circulars that were applicable to the banking institutions and were particularly for the Islamic banking institutions.

#### ***2.7.10. Empirical discussion on regulatory framework of Islamic banking in Pakistan***

A range of scholars have discussed regulating framework on Islamic banking, stating that it has an adequate framework for supervising Islamic provisions in Pakistan banking market. The principles of Islamic banking have been discussed by Song and Oosthuizen (2014) and Biancone et al., (2020), stating that these are sound principles approved by the Shariah board of Pakistan, offering adequate instructions to the financial institutions. However, Haseeb (2018) had opposing viewpoint and argued that the regulatory framework of Islamic banking in Pakistan should include an innovative approach and consider the Shariah principles of Islamic modes, accounting and auditing standards provided by the international best activities. In the given context, scholars argue that rigorous regulatory and transparent standards requires strong leader to initiate innovations needed to widen the depth of Islamic Financial markets and offer wider prospects to regulate their risk continuum. According to Rafay and Sadiq (2015), there are a range of factors that should be taken care of like supervision of legal framework, HRM in the central banking operations, treasury and institutional arrangements. The State Bank of Pakistan is also required to enhance its assessment of feasibility reports and other project execution follow-up activities. The issues related to liquidity management and monetary management can only be resolved with the help of supervisory authorities. In that context, Biancone et al., (2020) argued that for the growth of Musharaka, Mudaraba, Leasing and Salam in Islamic banking in Pakistan, comprehensive activities should be initiated by the State Bank, Islamic banks and the related authorities with the help of their leaders who restrain deteriorating Islamic principles of banking system.

When discussing taxation laws, scholars argue that it needs some changes to save banks from external burden along with the help of their regulatory authorities. The reason is mentioned by Rahmayati (2021) who argued that when banks are involved in trading and leasing practices, leaders supervising such banks need to save their banks from exercising those trading practices that are not under compliance with Islamic principles. It is estimated that the system of Islamic banking in Pakistan can be stimulated by supervisory mechanism and with the help of adequate supervision and leadership ethical inclination who follows Shariah principles in stringent manner. Zins and Weill (2017) identified a number of factors related to the legal, operational and regulatory aspects for the smooth operations of Islamic banking system and argued that if their leaders have adequate abilities to create robust Islamic Financial Services, the attainment of smooth operations of Islamic banking is made possible.

#### ***2.7.11. Shariah Audit in Islamic banking system of Pakistan***

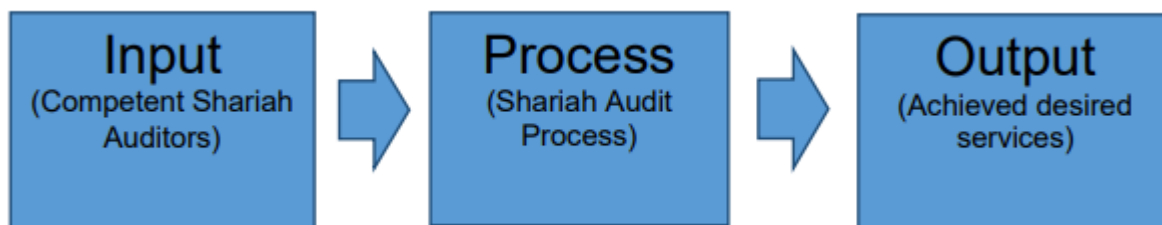
Shariah Audit and governance system is defined by Rahmayati (2021) as the arrangement that offers legitimacy to the Islamic Banking Institutions (IBS). Under this process, the notion of Shariah governance needs that all the business matters of IBS should be carried out under Shariah rules and principles under the supervisory board of Shariah. According to Paud et al (2015) all the activities in assessing and reviewing the IBS transactions must be adequately carried out, based on the Shariah guidelines and Islamic compliance. The activities can be planning review instruments, carrying out procedures to review Islamic principles, preparing and review of working papers and documenting conclusions. The preparation of Shariah audit report is the final step, conducted to disclose shareholders about the IBS compliance with Shariah when IBS execute their activities.

According to Rashid and Ghazi (2021), any Islamic organisation, especially Islamic banks should have a persistent model and an adequate process and policies that stir their healthy and robust corporate governance under the principles of Shariah. The stakeholders of Islamic banks like account holders, investors and employees have an immense interest in the Islamic values and the only procedure to prevent and retain the interest of stakeholders is by affirming Shariah compliant process and proposing facilities. In order to achieve this purpose, scholars find that the Shariah audit process need to be implemented by IBS so that the stakeholder confidence is improved about the system followed in the Islamic banks. About Shariah auditors, Siddiqui and Usmani (2014) argued that they need to have competency that helps them in a well-organised way to establish the procedures of recognition, assessment and growth of auditing in a comfortable

manner. Under the Global Internal Audit Competency framework (2014), competency is the key ability of Shariah auditors as it is linked with their knowledge and technical abilities to perform better in the job with professional attitude. It is notable here that the Shariah auditor should be competent in terms of technology usage, human resources, arrangement of resources and to arrange and regulate informal organisational culture. This means that a person who is auditing financial institutions and banks need to have potential abilities with aim to complete tasks in the given time frame. Ayub (2019) argued that Shariah auditors need to put their focus on the accounting standards and adapt ethical principles (transparency, accountability) and assure that they are updated and can resolve the contemporary issues. It is important for a person carrying out audit that he/she prepares the report and should have proper knowledge and relevant experience. Paud et al (2015) added in the literature and argued that for the progression of any profession and especially for the Shariah audit quality standards, it is important that following three aspects are ensured; advance information, persistent education and keeping minimum level of professional qualification. When an auditor successfully win all these points by using a professional education of audit, research and training programs; the attainment of fair practices under Shariah auditory firm becomes possible. As per Sani and Abubakar (2021) , for every careful auditor, knowledge in the relevant field, experience and skills are all important determinants and help them attain transparent Shariah auditing process.

Whilst discussing Shariah audit process, Rammal (2015) argued that for an adequate and robust Shariah audit process, an adequate human capital is the most essential part to regulate the validity of Islamic financial products and services provided by the Islamic banks. Additionally, another most important aspect of the Islamic financial services is the attainment of trained human resources so that the possibility of adequate human personnel for the Shariah auditing is increased. Shahzad and Khan (2015) also argued that under Shariah principles, a person should have detailed and deeper understanding and commitment to the foundations of Islamic philosophies and ideologies. Various Islamic nations follow varying accounting standards due to their different cultures and business context. In the context of Pakistan, the experts graduating from universities need to have well-established knowledge of accounting standards, business operations and Shariah principles so that they do not face any challenge when they enter professional marketplace. The below figure shows a planned illustration of the Shariah audit process followed by Islamic banks in Pakistan and the shows the key aim of Shariah audit process. According to this process, the

purpose is to ascertain Shariah based products and services for the customers in Islamic banks and conform to Maqasid al Shariah that is the prevention of banks from carrying out non-Islamic activities like riba, and hardships that are not allowed under Islamic principles. For a successful audit process in Islamic banking system in Pakistan, some characteristics like regulations and human capital should be injected in the Shariah audit process in the initial phase as an “input”.



Shariah audit

Source: Rammal (2015)

#### **2.7.12. Shariah Governance Framework in Islamic banking in Pakistan**

In 2008, State Bank of Pakistan provided a detailed set of instructions and offered guidelines for the Shariah compliance vide circular number 2 of 2008. However, due to evolving nature of Islamic banking in the past few years, some of the key instructions and guidelines have been re-evaluated and an overarching framework called “Shariah Governance Framework” was initiated in 2015. The framework is still applicable to all Institutions of Islamic banking; full-fledged Islamic banks, subsidiaries and the division of conventional banks into Islamic banks. The preliminary aim of this framework was to enhance the entire Shariah compliance context of Islamic banking Institutions and to describe the roles and obligations of the people working in different departments of the Islamic banking Institutions, such as; board of directors, executive managerial staff person, board member of the Shariah, Shariah compliance department, internal and external auditors who have duties towards Shariah compliance. The Shariah Governance Framework has the obligation to offer an effective mechanism for the board of directors who oversee the compliance environment of Shariah board, the accountability of staff members of the Islamic banking in execution of the framework. According to Rafay (2020), the Shariah Governance Framework is an effective framework that ensures an autonomous and proper criterion to appoint the annexure of this framework under the supervision of scholar who works as “Resident Shari’ah Board Member (RSBM)” who has the obligation to implement steps related to fatwa and guidelines for the clarification of Islamic principles in banking system. Shafii, Abidin and Salleh

(2015) added in the literature and stated that for annual audit of every Islamic banks, it is crucial under Shariah Governance Framework that the Shariah Audit Unit ensures ethical and social responsibilities related to annual audit of the banks. The board of directors is also anticipated to have an adequate knowledge about Shariah principles and application in the banking system. According to Ayub (2019) , every member of the Islamic Banks should offer adequate sessions of training on Shariah principles on a regular basis. This aspect can ascertain that officials are facilitated for their professional and effective execution of this Shariah Governance Framework.

### ***2.7.13. Empirical discussion on Shariah practice in Islamic banks in Pakistan***

As literature shows explicitly that Islamic banks should follow the principles and guidelines provided by the Shariah and are attained from the two primary sources: Quran and Sunnah and the Ijma (consensus) and qiyas (logical reasoning) (Abbas and Ali, 2019). Under these sources, there is no such chance of interpreting banking system in an ambiguous manner. According to Shahzad and Khan (2015), bankers do not have any option to interpret different actions carried out in the Islamic banks following their own impulses.

The literature has explained the system of Islamic banking through various theoretical studies and point out that Islamic banks should adapt to Shariah principles and regulate their activities under Islamic principles. This compliance can ensure the extent to which Islamic banks follow their governance mechanism and follow their ethical standards under Islamic principles. Majeed and Zainab (2017) described that the fundamental functions of Islamic banks are to offer interest free services; whereas, Asutay and Harningtyas (2015) said that Islamic banks are not only limited to offering interest free loans but they also need to ensure that there is strong corporate governance mechanism that is trusted by its customers. Noordin and Kassim (2019) also stated that the interest on the amount given to debtor is against Islamic rules and should be strictly forbidden in banks following Shariah rules under robust corporate governance mechanism. Mersn and Othman (2016) added in the literature, stating that Islam strictly forbids any kind of interest-based loan and there is no choice for fraud. The robust governance mechanism is intended to prevent fraud in all its forms directly within the sphere of banking operations. Other scholars, Khaleel, Janjua, and Ahmed (2021) also mentioned in his qualitative study that if Islamic banks follow earning strategy that does not fall in the Shariah principles, it ended up in declining revenue as customers lose their trust on the banks. Eventually, there is a negative impact on the whole economic growth of the country.

Sencal and Asutay (2020) mentioned in their study Islamic banks accept money as the medium to exchange and store of value; however, it does not use money as the commodity. Hence, it is argued that the money cannot be charged for additional amount. Additionally, Khalil and Chihi (2020) also stated that interest amount always exploits borrowers as fixed amount is charged by the bank and borrowers are in loss as they need to pay that amount, regardless of any loss/profit. If the borrower faces any loss, the burden of repayment is increased as the borrower becomes insolvent day by day and the burden of loan repayment is increased. In addition, the key disadvantage of interest-based banking system is, it destabilises economic system of the country. For example, obligations of banks are to assure loans with guarantee but the assets experience risks and challenges, especially risk of default. As a result, the bank is unable to keep its position strong if it faces loss on its asset side and so it becomes unstable. Rashid and Jabeen (2016) pointed out that the elimination of interest is the basic principle of Shariah. Grira, Hassan and Soumaré (2016) also added and said that under agency theory and fraud triangle, every bank is prohibited from being indulged in deceiving its customers and give them false information that can negatively affect them in future time period. The interest-based loans do not showcase Islamic financial system; rather, it is the big supporter of risk sharing. The book, “Risk-sharing in Finance”, written by Gruening and Iqbal (2008) mentioned that the requirement of risk sharing concept is raised after the disaster of the US financial system in 2008. To manage this risk problem in an efficient manner, many risk sharing banking instruments were initiated like government backed financial instruments. In addition, prohibition on short sale and leveraging also helped reduced the risk of finance and resulted in “risk-sharing in finance”. In the context of Islamic banks, Mudarabah is the clear example of risk-sharing. It is the partnership between the one who owns and the one who uses that money on the basis of profit/loss. This arrangement not only augments assets in deposits but it also increases the real-economic activity by arranging capital resources in the assets. Almutairi and Quttainah (2017) also highlighted the benefits of sharing risks in Islamic banks and disadvantages of conventional banks. They argued that the depositor and the lender are free from owning any risk, but the risk is all borne by bank and the person who borrows it in conventional banks that increases the load of bank and the borrower. It accumulates the capital resources in a few hands. On the other hand, Islamic banks seek profit/loss sharing amongst the parties at some predetermined percentages. This aspect reduces the burden of bearing whole risk of loan and facilitates parties of agreement to share profit and loss. This means that Islamic banks offer other

options to banks and savers who want to have legal and morally justifiable investment prospects. However, Islamic banks under Shariah principles are strictly forbidden from making investments in harmful business like alcohol, weapons, gambling, porn and music etc. Under Shariah principles, banks are not allowed to make any investment that create injustice in society and also exploits people. Alam et al (2020) explained that the attributes of Islamic banks are; to generate economic activities in the country and ascertain morally-healthy society that results in the economic growth of the country. However, critics oppose products offered by the Islamic banks like Murahabah and Ijara and argue that these products have a huge resemblance with the conventional products; thereby these products are less effective and not in full compliance with Shariah principles (Khalil and Chihi, 2020). According to Grira, Hassan and Soumaré (2016), the attributes of Murahabah are in conflict with Shariah principles. They added in the theory that the practice of Islamic banks in Pakistan is not under full compliance with Shariah principles. The banking industry of Pakistan lacks ethical standards under its corporate governance and requires authentic and ethical leaders who restrain its system from being destructed. Hence, this also shows that Pakistan Islamic banking system still lacks comprehensive regulatory framework due to inadequate focus on its governance mechanism.

## ***2.8 Corporate Governance***

Corporate Governance (CG) is defined by OECD as “Corporate Governance helps to create an environment of trust, transparency and accountability essential for augmenting long-term investment in the company, maintains its financial stability and business integrity; thus, supporting strong growth and inclusive societies” (p. 20). This definition is further corroborated by Hegney, Plank and Parker (2006) who argued that CG is the institutional framework that governs business division and exercises power in the company. This power concept is the critical component of CG, which implies that higher authorities in the company are left with their choices. On the other hand, Harris and Jones (2018) explained CG as the combination of rules that helps authorities to govern and regulate their business activities and internal and external factors have equal impact on decisions taken by Corporate Governance regulator in the company. This shows that CG is not only about exercising power in the company; rather, it includes rules and procedures for the implementation of control and accountability in the company. For the long-term viability of banks, corporate governance practices help in the development of an efficient partnership between shareholders (known as principals) and administration (termed as agents) (Adams and Mehran

2012). Various corporate governance concepts, including the agency theory (Jensen and Meckling, 1976), transaction cost theory (Williamson 1985), resource-dependent theory (Pfeffer and Salancik 1978), and stewardship theory, all stress the significance of corporate governance in improving bank efficiency. By developing a clear principal-agent relationship, corporate governance offers a framework and an efficient mechanism for setting and monitoring bank results.

Since the GFC of 2007-08, problems of corporate governance (CG) have regained widespread interest, which is attributed to agency theory. According to Jensen and Meckling (1976), executives want to make decisions that benefit them, while investors want these choices that will benefit them, resulting in a contradiction. Even so, by associating managers' interests with those of investors and effectively controlling managers, this conflict of interest can be minimised. Farinha (2003) examines CG literature from 1932 to the financial crisis involving Enron, Worldcom, and other companies in order to determine the true existence and implications of CG.

According to Haris et al. (2019), the main disagreement between managers and investors stems from their disparate approaches. Short-term management and immediate cash flow are important to the company's executives, but long-term planning is important to the shareholders in order to maximise the firm's value. Companies must implement similar internal discipline including the board of director representation, insider ownership, major shareholders, pay structures, and dividend and debt policies in order to reduce agency costs. Banks vary from non-financial businesses in many ways. As a result of the nature of industry, legislation, and cash flows of banks, the governance of banks and non-financial firms differs. Bank governance is distinct in that it is distinguished by a deposit insurance fund, an asset structure, a loyalty issue, a liquidity output mechanism, and a higher level of transparency, all of which lead to increased regulation of these institutions. These discrepancies can be further clarified as follows: first, since banks are the backbone of the financial system, their failure has significant repercussions. As a result, this industry needs more regulation than non-financial businesses.

According to Levine (2003), financial institutions' risk assessment is more critical than non-banking financial companies because of their role in the financial system. Since large banks' risk management failures have a negative effect not only on the financial institutions but also on the economic and financial dynamics of a country. As all banks primarily depend on depositors for capital, there is an opportunity to take on several uncertainties (Ahmad and Arafat, 2020). Since

banks can earn more money by focusing on high ventures or properties, however, investors bear a large portion of the risk if these investments collapse.

Scholars argue that like any other financial institutions, Islamic banks are also not immune to the failure of its governance mechanism. For instance, Arslan and Alqatan (2020) illustrated that there are many Islamic banks that have undergone financial risk management crisis that forced them to disclose their functions. Some notable cases are mentioned by scholars as, Ihlas Finans in Turkey that showed global financial crisis in 2008 not only affected conventional banks but they also influenced Islamic banks. A study by Ashfaq,] and Saeed (2017) showed that when there is a weak corporate governance mechanism of Islamic banks, it results in its weak regulatory framework and results in declining financial performance. However, Albrecht, Albrecht and Albrecht (2004) concluded that literature shows gap in the context of Shariah's compliance and Islamic banking corporate governance mechanism that can result in loss of trust of customers. As Shariah prohibits interests, it seems unethical as per the Shariah that is financier attains money as a return without even considering any risk ( other than credit risk) then it shows weak corporate governance. When wealthy people lend money to poor with some expectations of return, it results in severe financial issues and social problems. On the other hand, if Islamic banks are in compliant with the Shariah and they provide loans then they do not use any interest like sales on credit with some profit mark-up. The religious description of Islamic banks results in the conjecture that Islamic banks owns intrinsic characteristics that improves its ability to survive economic shocks. Despite all, banks are mostly subject to some kind of risks like credit risk, market risk, liquidity risk and operational risks. On the flip side, Islamic banks experience rate of return risk along with non-compliance risk with Shariah principles (Alexander, 2006). Fiduciary risks are also faced by them if it is about profit sharing account. Islamic banks also handles liquidity risks but they are different than conventional banks due to pertinence of Shariah limitations on different kinds of liquidity instruments that may help these Islamic banks, in particular to inadequate short-term sovereign instruments utilised in conventional banks for the prevention of liquidity risks. Notably, Islamic banking industry is very sensitive in terms of control of risks, like Islamic banks can face credit risk monitoring system challenges as the size of the banks is expanded. Islamic banks are also exposed to credit risks if their clients default through Salam or Murahabah, Musharakah etc. But as per Ansari and Sanaullah (2014) in order to attain Al-Shariah principles, it is important to

implement good corporate governance activities and ensure that the Islamic banks is sustainably improving its people quality of life through profit/loss sharing concept.

Literature shows that Islamic finance has now been regarded as one of the most essential aspect of the worldwide economic system and financial industry. This increased growth is linked to the following most important areas; the demand for Shariah compliant financial services by the large number of Muslims, the emerging extra revenue from the natural resources requiring adequate investments in the Muslim countries and the enhanced financial competitiveness of Islamic banks and their products. Corporate governance is increasingly gaining momentum in the context of Islamic banks, indicating that it is ethical and moral obligation of Islamic banks to stay accountable and transparent towards stakeholders. Ercument Aksak and Mehmet Asutay (2015) stated in their study that although this is contended that corporate governance is a crucial factor in Islamic financial institutions but it is also notable that the evidence on this is in its infancy and preliminary. According to Ercument Aksak and Mehmet Asutay (2015) the research is somehow limited in its scope in the context of Islamic banks and needs extended review on how and to what extent corporate governance can be enhanced in Islamic financial institutions.

According to Yusuf Karbhari, Alam and Rahman (2021), who proposed a New Institutional Theory and delineated Shariah Governance Framework to offer an understanding of how Islamic banks theoretically affects Shariah Governance activities, structure and processes; however, they concluded that there is a need to use this New Institutional theory to understand the components of Islamic banking and Insurance organisations. He stated that future scholars are suggested to add in the existing literature by justifying the impact of government policies in overarching Shariah Governance Framework. Another study by Hassan, Karbhari and Ahmed (2021) also explored the regulatory impact of governance on the central banking performance under authentic leadership and found that bureaucracy pertains in banking system, hindering them from carrying out transparent activities.

Hassan and Dridi (2010) offered some conflicting finding that indicated that the business model and investment approaches of Islamic banks are quite different from the conventional banks; therefore, factors inked with the Shariah compliance and the business model of such Islamic institutions facilitated similar banks to include the negative influence on their revenue in previous years when financial crisis began in 2008. Weak and poor management of risk factors, when

combined with weak corporate governance in Islamic banks; it results in the massive decrease in the profitability in contrast to those conventional banks that also underwent profitability decline in 2008 and 2009 (Sencal and Asutay, 2020). Hassan and Dridi (2010) added in the literature that the importance of Shariah compliance needs limit the Islamic banks' exposure to the toxic instruments that turned the preliminary financial issues into an international epidemic. Critics also argue that the default of the Dubai Sukuk market due to the financial crisis of 2008 is also a direct consequence of the limited focus on the Shariah based principles and weak corporate governance (Weakley and Magistrate, 2017)

The number of studies on corporate governance in the finance industry is still small. Because of the peculiar complexity of the banking sector and its importance in the economy, issues in the banking industry are very particular, owing to their corporate governance structure. The complexity of banking operations limits stakeholders' ability to track bank managers' activities and increases asymmetric knowledge (Ahmad and Arafat, 2020). Since banks take deposits, they are highly leveraged, necessitating more stringent regulatory oversight in order to reduce payment and systematic threat and also safeguard reserves, maintaining a payment method and responsible lending process.

Increased regulatory steps, such as bank ownership limits, credit limits, restricted activities, and fiscal transfers, have the effect of lowering risk. However, since these unreasonable steps are not consistent with shareholders' benefit maximisation goals, they can trigger agency conflicts. Hence, the established system of bank corporate governance, such as the bank board, board autonomy and board commissions aids in the context of higher informational discrepancies and more stringent regulations, thereby regulating manager conduct. Because of the complexity of banking activities, board members' experience allows them to track business performance (Ahmad and Arafat, 2020). By maintaining legislative compliance, the board establishes a bond with policymakers and decreases tension between policymakers and banks, thereby improving efficiency.

In recent times, the concern of bank directors' government connections has received a lot of focus. Pakistan is a democratic state, and the banking industry's output is often affected by high levels of political intervention. A study by Haris et al. (2019) conducted a study on an association between Corporate Governance, political connections, and bank performance. The findings showed that the banks' profitability is negatively affected by the existence of the directors who are politically

linked with some political networks. These directors report less return on assets, equity and the overall profit margin of such banks is significantly low. Their findings also showed that political intervention of directors of banks have negative impact on the sustainability market because of government transition of banks showing politically linked directors carrying out their activities in banks on higher seats. According to Asutay, Wang and Avdukic (2021) , the complicated nature of banking functions reduces stakeholder' power to regulate and monitor the banks' director and manager's decisions. This situation results in asymmetric information in the banks. Since banks are exclusively based on deposits, especially Islamic banks, there is a need to use intense regulatory control mechanism under strong corporate governance that also reduces probability of political interventions of directors and managers so that it can reduce systematic risk and prevent people deposits under Shariah principles. Hence, it ensures a stable payment system and wise lending mechanism. Here, it is notable that the regulations in Islamic banks are somehow different from the corporate governance of conventional banks like credit restrictions in Islamic banks are higher than those offered by conventional banks. But such credit lines regulations by Islamic banks reduce agency problems as they are mostly aligned with profit maximization of shareholders. Because of the complexities of Islamic banking corporate governance and its necessities of compliance with Shariah principles, the board of Islamic banks should ensure that their higher authorities are not indulged in any political intervention and raise the profitability of their banks. Hence, assessing the role of corporate governance towards the betterment of profitability of banks under non-political intervening authority is a significant research area for policy makers of Islamic banks.

Khawaja and Mian (2005) discovered that higher favourable bank loans have an effect on the output of Pakistani banks. They said that during presidential elections, institutions insert loans into political connections businesses due to political interest in the banking sector. Politically linked boards, according to Lau et al. (2016), have structure-oriented reward attitudes against government goals and encourage political intervention in internal decisions, which damages bank efficiency by prioritising political interests over banks profitability. Political ties encourage banks to take more risks by reducing interest rates and exploiting borrowing conditions resulting in poor output. As a result, politically linked businesses are more likely to receive low-interest loans from banking institutions. Furthermore, Yao et al. (2018) discovered high costs in the Pakistani banking sector throughout government changes, arguing that this may be due to political ties.

Since financial institutions are also government-owned and publicly strong, some private financial institutions are also influenced by politics. Along with political ties, both government-owned and private-owned banks lend more to government programmes, offices, and staff, resulting in lower productivity owing to loan defaults when the government changes (Yao et al. 2018). As a result, any new government has a negative impact on Pakistani banks' long-term competitiveness and progress. Previously, financial performance was affected by a shortage of human and financial capital, as well as political intervention and uncertainty. However, in recent times, there has been a noticeable change. Given the growth of Pakistan's (GDP), which has averaged 5.2 per cent over the last decade, the finance system and stock market performance are committed to extending (Yao et al. 2018). The Pakistani financial industry's outstanding success has helped to create Pakistan as one of the world's most prominent share prices.

### ***2.8.1. The Nature of Corporate Governance***

The concept of corporate governance has no firm definition, although it has been variously described by academics, legal professionals and practitioners regarded as authorities in this field. Corporate governance (CorpGov.net, 2017) compiled some definitions quoted in this and the next few paragraphs for analysis. Academic definitions view the term as pertaining to the “act of steering, guiding or piloting” as “accountability to providers of capital,” or “the conflicts of interests between the providers of finance and the managers.”

James McRitchie, (2020) in his article in CorpGov.net mentions Jim Kristie's practitioner definitions include “gathering a group of smart, accomplished people around a board table to make good decisions on behalf of the company and its stakeholders”. He further mentioned that it is “the relationship among various participants (chief executive officer, management, shareholders, employees) in determining the direction and performance of corporations”; and “the process carried out by the board of directors, and its related committees, on behalf of and for the benefit of the company's stakeholders, to provide direction, authority, and oversights to management. “

James McRitchie, (2020) in his article in CorpGov.net mentions J. Robert Brown, Jr. and Lisa L. Casey's definition that Legal experts, on the other hand, define corporate governance as “a function of the allocation of power within a corporation between its stockholders and its board of directors” or “a field of economics that investigates how to secure/motivate efficient management

of corporation by the use of incentive mechanisms, such as contracts, organisational designs and legislation” (CorpGov.net, 2017).

It is important to provide the official and carefully worded definition of corporate governance upon which this dissertation operates. Sir Adrian Cadbury provides an instructive description of corporate governance that is based on rationale and motivation behind it:

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources (Kolk and Pinkse 2010). The aim is to align as nearly as possible the interests of individuals, corporations, and society. The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment. The incentive for their adoption by states is that these standards will strengthen the economy and discourage fraud and mismanagement” (Iskander and Chamlou, 2000, p. vi).

Sir Adrian’s definition deftly avoids giving a categorical designation of what corporate governance is, but instead describes what it aims to do, its *raison d’être*. Corporate governance is an intangible element of corporate existence, which aims to balance economic and social as well as individual and communal goals (del Baldo, 2012). It is therefore rooted in the concept of fairness. It is evidenced by a framework that is palpable and authoritative. The description also articulates the motivations or incentives to the corporation and the state, the two major institutions whose interests need to be balanced; clearly, corporate governance exists not as a creature of the law, the state or corporation, but because it is a necessary implement in sustaining all stakeholders’ relationships in the firm for the long term.

Similarly, corporate culture comprises the attitudes, beliefs and values of a group, organisation, country, and it has many attributes (Hofstede et al., 1990). Leader-follower relationship is affected by the culture in which they operate. Culture produces stabilizing effects that increase the conduciveness of environments to destructive leadership outcomes.

### ***2.8.2. The Evolution of Corporate Governance in Pakistan***

Proper corporate governance is imperative to the establishment of the complete market. Sufficient research indicates that a country that has implemented corporate policies as part of its measures tends to experience robust growth in the corporate sector (Cuomo et al., 2016). Pakistan

is characterised by a multifaceted corporate regime that falls under six categories: general corporate law, rules and regulations, stock exchange, civil laws, criminal laws and the National Accountability Ordinance, which focuses on corporate fraud and misappropriation. The concept of corporate governance in Pakistan was borrowed from the United Kingdom (UK), where it had flourished for many decades. Corporate governance in the British context encompasses the checks and balances affecting those who run companies. The topic of corporate governance is currently an important feature of the landscape for publicly traded UK companies. Nonetheless, there have been concerns in the UK since the 18th century, as such organisations are afflicted by managerial accountability challenges and shareholder apathy. Though it traces its origin to the 1980s, corporate governance has maintained a high profile in the UK, with the government taking a keen interest in its future development. The reform proposal associated with this concept raises the bar further. Changes and initiatives that come alongside corporate governance are driven at the UK and the EU levels; therefore, they continue apace.

In line with this concept, the code of corporate governance in Pakistan was enacted by the Securities and Exchange Commission of Pakistan (SECP) in 2002 as part of the major steps towards improving corporate governance in the nation (Shamsiet al., 2015). The SECP code supports varied recommendations in line with international moral practice. The major areas of enforcement include reforms of the board of directors, who are responsible to the stakeholders and who are in charge of ensuring improved disclosure and for improved internal and external audits for listed companies (Shamsiet al., 2015). Nonetheless, the limitation of the code to the directors is voluntary, and they need not offer guidance on internal controls, risk guidance and board compensation policies.

Another policy that is in line with the corporate governance in the banking sector is the Basel III Policy. This constitutes an internationally agreed set of principles for banking supervision in response to the financial crisis of 2007-2009. The policy is targeted at strengthening the regulation, supervision and risk management of banks. Based on the standards set by the Basel Committee, banks practising corporate governance are required to meet on an ongoing basis the minimum licensing criterion set out by the Banks and Deposit Companies Act of 1999. Among these requirements is the need to ensure that the business operates in a prudent manner, including maintenance of capital and financial resources commensurate with the nature and the scope of operations.

In line with this discussion, the State Bank of Pakistan has adopted the Basel III Policy to adhere to international standards aimed at strengthening the capital liquidity in the banking sector. As such, banks in Pakistan have been forced to adapt to the capital liquidity regulatory requirements consistent with the Basel III jurisdiction. It is a requirement for the banking sector in Pakistan to embrace the three pillars of the Basel Committee principles in perpetuity, and any bank presently reporting to the State Bank must adhere to these requirements.

### ***2.8.3. Overall Corporate Governance in Pakistan***

Pakistan's financial sector has undergone numerous transformations since 1947. Pakistan began its financial services in 1947 with only one banking system among the other 99 banks that were located in the subcontinent. Pakistan's State Bank was founded in 1948. The country's banking sector expanded steadily between 1948 and 1974. Whereas the private industry participated heavily in the development of investment companies, the State Bank of Pakistan granted licences to international financial institutions to open branches in Pakistan. In 1974, Pakistan's ruling party agrees to nationalise all of the country's financial institutions. Thirteen banks were nationalised and combined into five new ones.

The SBP and the Security and Exchange Commission of Pakistan (SECP) did, fortunately, take some measures in 2002 to ensure the economic industry's sustainability. In August 2002, SECP and UNDP launched a new initiative to develop and introduce a CG code for Pakistan. While there were some provisions for banks contained in this code of CG, the complexity of banking necessitated the development of a clear code of CG. To address this concern, the SBP published a special CG handbook for banks in 2003 (SBP, 2003). The aim of this handbook is to offer guidance to the BOD, investors, and administration. This handbook's suggestions and guidance are primarily drawn from the OECD and the Basel Committee on Financial Markets, which address key dimensions: BOD, Management, Financial Disclosure, and Auditors. Ernst & Young issued a detailed CG handbook for the banking industry, which can be used as a foundation for CG in Pakistani banks. Prudential rules, as well as a special three-tiered Sharia Compliance Mechanism, were implemented to regulate IBs. This three-tiered structure includes the bank's internal Sharia Advisors, Sharia Compliance Inspection, and the SBP's central Sharia Board.

This framework, according to the SBP, is very beneficial in ensuring the integrity of Islamic banking products and in adopting the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Standards/Guidelines (SBP, 2007). As a result, the CG structure

of Pakistani IBs is more controlled than that of CBs, and the SBP pays close attention to it. Prior research has looked at the impact of CG on the banking sector's efficiency. This research, nevertheless, has methodological flaws, such as disclosing CB and IB CG in the same econometric model (Ahmad and Arafat, 2020). When looking at the effect of CG on IBs and CBs together, studies provide mixed results.

Asian demographic, psychological, and organisational environments vary from those in the Western World, and research performed in the Western World have limited application in Asian countries. While indications of a connection among firm success, corporate governance, and incentives exist in other Asian countries, the Pakistani situation is unique for a variety of factors. For starters, in Pakistan, centralised and community control is more popular than, say, in Japan or Korea. Likewise, while Chinese companies have a higher concentration of ownership than Pakistani firms, the type of ownership distribution in Chinese businesses is unique, as the government typically owns large stakes in large corporations (Bryson, et al. 2014). Non-government shareholders retain Pakistan's concentrated ownership. Companies with a high concentration of non-government ownership resemble private-owned businesses, which may have various consequences for CEO remuneration.

Furthermore, Pakistan's constitutional and democratic climate needs consistency, and the country's overall governance is gradually improving (Mujtaba and Afza, 2011). Throughout the last century or so, the World Bank's projected state effectiveness index and regulatory efficiency index have remained negative. Furthermore, international influence on governance and the business climate has increased. For a long time, Pakistan has been influenced by the International Monetary Fund (IMF) and other funding bodies. Furthermore, Pakistan's financial system is more incompetent than that of many other Asian nations. As per Transparency International, Pakistan's Corruption Perception Index has never exceeded 30 where 100 depicts no corruption. As a result, Pakistanis such as executives are more likely to engage in immoral and opportunistic conduct (Mujtaba and Afza, 2011). Third, in Pakistan, the provision for CEO compensation disclosure is more stringent. All elements of CEO compensation must be reported by businesses. This is not the case in the majority of Asian nations.

In agency theory, corporate boards, taking responsibility for the company, engage in arm's length transactions with the CEO and develop incentive strategies that provide the CEO with productive opportunities to optimise profits for shareholders, thus reducing the moral hazard issue

associated with the division of interest and management (Bebchuk and Fried, 2003). This suggests a positive relationship between CEO pay and company success. Several researchers have found evidence that supports the agency theory. As per MPT, if the balance of power changes in favour of CEOs and they act dynamically, CEOs are more likely to engage in rent exploitation by setting their payment high, which is not in shareholders' best intentions (Bebchuk and Fried, 2003). With the CEO's expanded control, the board of directors and benefits panel, under the CEO's control, weaken their contractual responsibilities and agree to extreme CEO benefits that may or may not be related to business results.

Since they are either members of dominant groups or have close relations with board members, CEOs in Pakistan are more influential than boards (Shah, 2014). The tight relations between CEOs and their associated shareholders indicate a higher risk of minority shareholders being expropriated. This reflects the type-II agency problem. Furthermore, where formal systems including the judicial system and investor security are poor, minority owners' rights are more likely to be expropriated.

#### ***2.8.4. Code of Corporate Governance in Banking of Pakistan***

The authority granted under section 156 read through section 512 of the Companies Act 2017, the Securities and Exchange Commission of Pakistan (SECP) released the Listed Companies (Code of Corporate Governance) Regulations, 2019 ("2019 Code"). On September 25, 2019, SECP provided the names of the Listed Companies (Code of Corporate Governance) Regulations, 2017 ("2017 Code"). The 2019 Code is focused on a new governance framework in Pakistan called "comply or explain." After the implementation of corporate governance for listed firms in Pakistan in 2002, with subsequent amendments in 2012 and 2017, particular requirements have been expected to be enforced as a 'non-compliance.

The Security and Exchange Commission of Pakistan (SECP) enacted a corporate governance code. In 2012, SECP implemented a law known as the "Code of Corporate Governance (CCG) 2012," which laid out comprehensive rules and requirements for board members, financial statements, governance structure, and stakeholder obligations. The literature shows that CG activities favour companies in both developed and developing countries, assisting them in achieving higher and more efficient productivity growth (Arslan and Abidin, 2019). CG activities also aid in increasing capital markets' potential to improve profit growth in the country's growth.

Scholars have also stated that CG activities protect both small and large investors (Javid and Iqbal, 2008), as well as encouraging growth and investment competition. Pakistan has had the CG code and amendment for a long time, but researchers have discovered that CG enforcement is not up to standard and that companies in Pakistan lack real CG compliance (Arslan and Abidin, 2019; Samza, 2016). The CCG code has several mandatory requirements related to auditing, board composition, and transparency for publicly traded firms, but some optional provisions remain (SECP CCG, 2012). Since ownership intensity is strong in Pakistan, these laws put the state's and families' budgetary powers to the test. As a result, these family enterprises are unable to comprehend the CG code in its entirety, putting CG enforcement at risk.

Khan (2014) performed research among Pakistani listed companies and discovered that tick box practice is very popular among PSX-listed companies. He also recorded that a senior SECP officer admitted that the CCG is not being enforced properly because the majority of publicly traded companies in Pakistan are owned by families. Family members are also named as an executive and non-executive directors, according to researchers (Arslan and Roudaki, 2017). It's also normal to name relatives or even siblings as independent directors, even though only a few of them meet the CCG's requirements (Arslan and Abidin, 2019). Khan (2014) went on to say that "law in books" is not sufficient it has to be put into practice in order to be called "law in action."

Likewise, Samza (2016) discovered that many CG code provisions coincide with Pakistan's Companies Ordinance 1984. It is also claimed that the Pakistan Institute of Corporate Governance (PICG) and the Securities and Exchange Commission of Pakistan (SECP) must take effective measures to raise consciousness about the implications of CG compliance. Also, the banking sector along with other sectors plays an important role in the creation of CG structures, and their participation is contingent on the level of institutional maturity. Even so, the sanctions inherent in a particular plan can have an effect on institutional complexity (Arslan and Alqatan, 2020). The effects of these factors are determined by a nation's socio-economic growth.

#### ***2.8.5. Corporate Governance in Banks***

Corporate governance is likewise relevant for banks. However, banks and other financial institutions are by their nature bound as fiduciaries to their depositors and clients. A fiduciary, in its basic meaning, refers to "a person charged by law and equity with a higher duty to care for another person ... required by law to place the other person's interests equal to or ahead of his or her own in all dealings involving that other person" (Rahaim, 2005, p. 5). Therefore, the fiduciary

is a person trusted by another party (i.e., the principal) to dispense advice by virtue of his or her better knowledge and judgment; fiduciary relationships exist between doctor and patient, teacher and student, lawyer and client (Baxendale, 2011). The key components of a fiduciary relationship are trust and loyalty; the principal invests trust in the fiduciary, who in turn devotes utmost loyalty to the principal within the scope of the fiduciary relationship (Gold and Miller, 2014; Conaglen, 2010; Weakley and Magistrate, 2017; Georgehead et al., 2005).

Many questions have arisen as to whether banks are fiduciaries of their clients. The reason for the doubt is that banks have been known to engage in so-called casino banking (e.g., “let’s place our bets”) with their clients’ money, which has become “the vogue” (Baxendale, 2011, p. 1). Such a behaviour has been described as “moral hazard,” the situation where somebody not authorised to do so risks the funds of another and incurs losses on that risk that the real owner of the funds is then forced to pay. In effect, banks that engage in this practice take advantage of their clients by putting their money in risky positions without their knowledge and consent (Bonomo, 2011). The bank, therefore, makes decisions while ignoring the moral implications of those decisions, because it is not going to bear the consequences of its actions (Pritchard, 2016).

The answer to the question as to whether banks are fiduciaries of their clients is an emphatic yes (Baxendale, 2011). This is a necessity, due to the very nature of the financial intermediation process that is at the heart of banking. When a person deposits his or her life savings with the bank, what is required of the bank is not just reasonable tort standards of care, but absolute standards of care—fiduciary standards in legal parlance. The reason is that a depositor’s funds, presumably set aside for retirement, once lost cannot be replaced. Therefore, the banker has an enduring obligation of fiduciary care (Baxendale, 2011; Ellinger et al., 2011; Rahaim, 2005).

Corporate governance in banks requires the fulfilment of fiduciary duties by the bank to its clients, as well as the fiduciary duties owed by the management and the board to the shareholders of the firm (Alexander, 2006). Above and beyond the corporate governance owed by the banks in their corporate capacity, as with all corporations, banks are held to a higher standard by a set of guidelines known as the Corporate Governance Principles for Banks. The guidelines were issued by the Basel Committee on Banking Supervision (Alexander, 2006). The Basel Committee operates under the auspices of the Bank for International Settlements. Its purpose is to provide a forum for regular cooperation on banking supervisory matters, with the goal of enhancing understanding of key supervisory issues and improving the quality of banking supervision

throughout the world (Bank for International Settlements, 2017). There are 13 Corporate Governance Principles for Banks (Appendix C) ; however, the most relevant for discussion in this dissertation are in Table 2 (Basel Committee on Banking Supervision, 2015):

*Table 2. Relevant Corporate Governance Principles for Banks*

Number	Title	Content
Principle 1	Board's overall responsibilities	The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.
Principle 4	Senior management	Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.
Principle 6	Risk management function	Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.
Principle 9	Compliance	The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.
Principle 10	Internal audit	The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank.
Principle 12	Disclosure and transparency	The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.

Source: Basel Committee on Banking Supervision (2015).

The Corporate Governance Principles, therefore, lay out a thorough identification and coverage of the roles and responsibilities of the board and management of the bank, and they hold the same account for the oversight and stewardship of the bank (Principles 1 and 4). Compliance and accountability are placed squarely upon the board of directors (Principle 9), as well as the identification, monitoring and management of any risk that arises or may arise in the bank; a chief risk officer (CRO) must be appointed by the board, but must act independently of it, be accorded sufficient resources and stature, and be guaranteed access to the board (Principle 6). Aside from the CRO, the internal auditor or audit team must also act independently of the board and the senior management and provide them with assurance and support. Finally, adequate transparency is required for shareholders, depositors and other stakeholders. There are seven other principles that have been omitted for conciseness, but they are nevertheless important in the governance framework of banks. Among the other principles are provisions for the establishment and management of proper governance structures to ensure that the mechanisms enabled in the above principles are operationalised and adhered to.

The SECP regulates corporate entities and administers corporate laws, while the State Bank of Pakistan regulates the banking sector. On the other hand, the Institute of Chartered Accountants of Pakistan regulates the accounting profession. The Code of Corporate Governance issued by the SECP is a code of best practices with which all listed companies in Pakistan must comply. The annual reports of corporations must contain an official statement on their level of compliance with the code. Contained in the code are best practices for the board of directors, its composition and duties, the chief financial officer, the company secretary, the audit committee and internal and external auditors (Chaudary et al., 2011). Other than the code, a Corporate Governance Index was developed for the banking industry in Pakistan, which, based on academic investigations, appears to have had a significant impact on the financial performance of the industry (Ashfaq and Saeed, 2017).

#### ***2.8.6. Cases of Non-Compliance with Corporate Governance in Pakistani Banks***

The Pakistani CG system is multi-layered, with CG laws falling into 6 groups: corporate regulations, regulations established under company laws, stock exchange advertising criteria and ordinances, civil laws relating to claims and their restoration, crimes, and special action for misrepresentation and corporate fraud under the National Accountability Ordinance (NAB) 1999. (Ibrahim, 2006). The CG situation in Pakistan can be divided into two categories: internal and

external. The internal CG environment refers to the collection of rules and regulations implemented by management in order to improve the firm's CG structure.

The Pakistani CG code, listing laws, and the Companies Ordinance 1984 are the internal CG structures for Pakistani companies. The external CG systems comprise the regulators' external search and control framework for improving the private sector's CG system. The Pakistani stock exchanges, the State Bank of Pakistan, the Security Exchange Commission of Pakistan (SECP), the Corporate Law Authority, and the Ministry of Finance are all external CG mechanisms for Pakistan (Khan, 2016).

In Pakistan, there is an increased focus on the need for corporate governance in banking institutions (Khalid, 2014). The stakeholders who are tasked with the development of guidelines and the formulation of corporate governance strategies in the country include the Securities and Exchange Commission of Pakistan (SECP; Khalid, 2014). The SECP is a regulator that was set up in 1997 through the Securities and Exchange Commission of Pakistan Act, 1997. Most of the banks in Pakistan are registered with the Karachi Stock Exchange and the SECP, and they must therefore abide by the rules and the guidelines set out by the two bodies. It is also important to note that the banking institutions or their subsidiaries that have not registered with the two bodies are still required to abide by the corporate governance guidelines developed by SECP (Khalid, 2014). The State Bank of Pakistan is also taking a leading role in the development guideline to promote corporate governance in the country's banking sector by ensuring adherence to fair and honest practices, transparency and disclosure, and ethically accepted practices (Khalid, 2014).

The SECP plays an important role in ensuring adherence to corporate governance by the financial institutions (SECP, 2012). To this end, the commission has developed a code of corporate governance that was revised in 2012. The code of corporate governance describes the composition of the board of directors in terms of gender, executive and non-executive members, and core competencies. It also sets a limit on the directorships to be held by a director and sets out the roles, powers and functions of the board of director. The code of corporate governance also prohibits duality of function by indicating that the person holding the positions of chief executive officer and the chairman of the board of directors must not be the same person. The code of corporate governance also sets out the need for training for the directors. The code describes the qualifications, criteria, and rules that need to be adhered to when selecting the chief executive officer and the head of the internal audit. The functions of the chief executive officer and the head

of the internal audit are also described with particular emphasis on the corporate and financial reporting framework. The work of the audit committee along with the frequency of meeting is provided in the code of corporate governance. The roles of the internal auditors and the external auditors are also described, as are the terms of engagement. Recently, the SECP developed comprehensive requirements for Islamic banks. The regulations developed by the SECP provide the framework for the determination of the banks that are sharia compliant.

A notable case of Zarco Exchange corporate governance failure is worthy to mention. In 2008, the company was identified with the problem of non-compliance with corporate failure and its non-compliance issues. The financial company was indulged in fraudulent transactions i.e. hawala/hundi that ended up in the failure at personal and societal level (Weakley and Magistrate, 2017). The fiasco of corporate governance failure began when the State Bank of Pakistan initiated an FIA (Federal Investigation Agency) campaign against all those financial institutions who were involved in undocumented or informal way of transferring funds called hundi/hawala. Zarco was amongst those institutions and it was reported that the company CEO illegally transferred Rs. 1,870 million amount to his bank account in some international bank under the hawala business between January 2008 till November 2008. This transaction led to the loss of capital resources and depleted foreign exchange reserves for the whole country and hence the company was identified with violation of rules set by the State Bank of Pakistan. This was worthwhile case study in the history of Pakistan and reflected failure of Corporate Governance i.e. weak accountability and transparency mechanism.

To ensure the adherence to the code of corporate governance, the SECP has various rules for the listed banks (SECP, 2012). One of the requirements is for the banks to publish and circulate yearly reports that show their compliance with the codes of corporate governance as set out by the commission. Before the publication and circulation of the statement of compliance, the commission requires the banks to have their practices of corporate governance checked by statutory auditors to determine their compliance. Where there is non-compliance with the codes of corporate governance, the statutory auditor must highlight it in the review report.

However, despite the elaborate code of corporate governance in Pakistan, there is minimal implementation of these regulations and rules (Bashir et al., 2018). The poor implementation of the code of corporate governance in Pakistan is in part because there is a lack of regulatory authorities to instruct the banks to apply the regulation strictly. Noreenet al. (2016) noted that there

is limited adherence to the code of corporate governance by the Islamic banks in Pakistan. They noted that the Islamic bank managers favoured adherence to sharia rules and they have paid limited attention to the stipulated code of corporate governance. The findings of their qualitative study that involved two bank managers of Islamic banks and four policy makers showed that there is limited knowledge among the bank managers about the code of corporate governance developed by the SECP. Noreen et al. (2016) proposed the need for the training of bank managers on the code of corporate governance. Khalid (2014) noted that the adherence to corporate governance is highly dependent on the leadership approach in the various banking institutions. Khalid noted that corporate governance is a consequence of morally strong leadership. According to Khalid, the banks that lack morally strong leadership have limited organisational performance, achieve inadequate transparency, and are unable to communicate the risks and hazards adequately to stakeholders, therefore failing in their corporate governance responsibility.

Evidence also suggests that the codes of corporate governance developed by the SECP have been received with some resistance by some of the financial institutions in the country (Ibrahim, 2006). It is argued that some institutions find the implementation of the codes expensive. The resisting parties also cite the impracticability of the implementation of the code. Pakistan does not have the required expertise to implement the provisions of the code fully. The reasons for the slow uptake of the code of corporate governance and the resistance among some institutions could be due to the failure of the approach to consider the varying ownership in Pakistan. According to Ibrahim, (2006), the types of ownership in Pakistan include the Anglo-American model and the family ownership structure. Unlike the Anglo-American model, the family ownership structure is characterised by the shareholders who retain control of the organisation and who are actively engaged in its management. Without taking into consideration the aspects of concentrated ownership, such as the family ownership structure, the implementation of corporate governance faces major challenges.

The corruption in the financial institutions in Pakistan's banking industry is a testament to the lack of adherence to corporate governance. According to Javaid et al. (2010), corruption has extensively permeated the banking sector. M.T. Khan et al. (2012) observed that corruption in the country's banking industry is mainly associated with non-compliance with rules and regulation regarding loans and borrowing. The non-compliance of the banks with corporate governance is mainly evident through defaulted loans and bad debt. As reported by M.T. Khan et al., most of the

individuals who default on bank loans and enter into bad debt are influential individuals in Pakistan society. Such individuals are also often protected by the banking system. Due to political influence, the defaulters are often granted amnesty at the expense of the greater good of other bank stakeholders and the public. According to M.T. Khan et al., 2012, the State Bank of Pakistan is unable to enforce adherence to corporate governance guidelines by the banking institutions, which are mainly at the mercy of powerful businessmen. The banks in Pakistan are therefore among the leading public utilities that promote large-scale institutional corruption (M.T. Khan et al., 2012).

Despite the observed poor adherence to the code of corporate governance in Pakistan, evidence suggests that the efforts that have made so far represent progress in the right direction (Hossain and Nurunnabi, 2011). As noted by the World Bank, the country has made significant gains in closing the gap between the domestic and international requirement for corporate financial reporting. The statement by the World Bank is based on the fact the country has adopted the International Financial Reporting Standards developed by the advanced economies and that have been adopted by most emerging economies. The Institute of Chartered Accountants of Pakistan, one of the accountancy bodies in Pakistan, has adopted most the International Financial Reporting Standards (Hossain and Nurunnabi, 2011). It should also be noted that the SECP requires all other accounting companies to be compliant with the International Financial Reporting Standards. The move towards increased compliance with international reporting standards is expected to strengthen the financial review and reporting, which will enhance the adherence of Pakistani banks to the code of corporate governance. The SECP has created a Monitoring and Enforcement Department, whose role is to ensure adherence to the International Financial Reporting Standards in financial reporting.

It is also important to note that the Pakistan government has enacted laws, which, if adhered to, will promote corporate governance in the country's financial institutions. The laws that have been enacted include the National Accountability Ordinance, which aims at identifying and punishing the perpetrators of corruption. The accountability ordinance puts the burden of corporate corruption on the management, which therefore helps to limit the pressure to commit fraud among leaders of corporate institutions such as banks (Ibrahim, 2006).

## ***2.7 The Fraud Triangle***

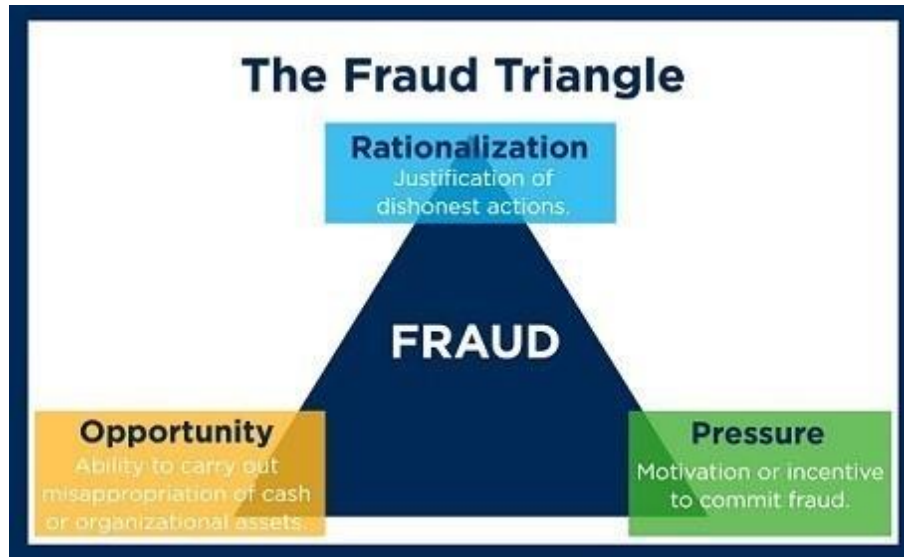
The fraud triangle is a model developed by Donald Cressey that explains the factors of fraud occurrence. The fraud triangle is a framework that provides a way to examine leaders' behaviour. "Triangle of Fraud" is a well-known term for auditors, because in most frauds, three points provide strong evidence of the initiation of a fraud:

- The incentive one will get by committing the fraud;
- The opportunity to perform that fraudulent act;
- The tendency to provide a justification for committing the fraud.

Managers have a different approach to committing fraudulent acts from non-management employees. Managers have the opportunity to perpetrate fraud because of the way they are compensated. It has become clear in high-profile cases (fraudulent acts using power and corporate abuse) since 2000 that senior and trusted managers sometimes manipulate and mould situations merely for their own sake and benefit. According to the fraud triangle (Figure 2), the perpetrator is most likely to commit a fraudulent act, if the fraudster has:

- Opportunity;
- Pressure/incentive;
- Or, rationalisation.

*Figure 3. The Fraud Triangle*



Source: Pamungkas, I.D., Ghozali, I. and Achmad, T. (2018)

Opportunity is the set of circumstances necessary to implement a plan without being caught due to weak internal controls. Rationalisation can be elaborated as a personal justification for fraudulent actions. Pressure can be defined as emotive or financial pushing towards fraud. Reliable persons violate trust when they conceive of themselves as having a financial problem that is non-shareable; such individuals are cognisant that this problem can be surreptitiously resolved by violating a position of financial trust, and they are able to smudge to their own conduct, as the situation leads to verbalisations, which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property.

This fraud model is enlightening in enabling and understanding corporate frauds. With the fundamentals of perceived pressures, perceived opportunities, and executive rationalisation in mind, the three important organisational dimensions of structure and controls, rewards and incentives, and executive behaviour can be considered in relation to the three fraud prerequisites (W.S. Albrecht et al., 2004).

Soltani (2014) recommended that the elements of the fraud triangle combined with an unethical climate were proven fraud drivers in corporate scandals. Svanberg and Öhman (2013) examined the relationship between audit quality and the fraud triangle element of pressure. They concluded that pressures to make the budget were related to the unethical acts of auditors underreporting engagement time. Every company has a corporate structure that is either primarily agency theory-based or stewardship theory-based. Agency theory is based on the notion that the

managers act as agents of the shareholders of the company, who act on their behalf in dealing operations and making key business decisions.

The first factor is pressure, which provides the motivation to commit fraud. In most cases, the motivation is financial need or greed to acquire more money. The second factor of the fraud triangle is opportunity, which can also be considered a perception. The opportunity to commit fraud comes from the powerful thought that the fraud will not be detected. This usually happens when the internal controls are not intact, and when compliance is poor. The last factor of this concept is rationalisation, in which the individual who commits fraud rationalises the action based on the motivation and need to commit fraud and finds it acceptable to commit (Peterson and Gibson, 2003).

According to the Chartered Institute of Management Accountants (2008), the departments most involved in fraud were upper management, executives, customer service representatives, and finance and reporting personnel. It was noted that weak controls, poor security, ineffective corporate governance, little chance of detection and unclear policies create an environment for individuals to initiate fraudulent activities and unethical practices.

#### ***2.8.7. Fraud and Organisational Corruption in Pakistan: Fraud Triangle Emphasis***

Maqbool (2000) linked the origin of corruption and nepotism with the start of colonialism in the subcontinent. Loyalty to a particular person or group gives rise to nepotism in the organisation. At the same time, Qadir (2003) reinforced Maqbool's point, stating that colonialism gave rise to division of lands and property on the basis of political affiliation and power.

Shah and Schacter (2004) and Langseth (1999) explained the reasons corruption and fraud are prevalent in Pakistan: (1) poorly strategized and managed policies and programmes, (2) a failure of accountability, and (3) a lack of willingness to serve. They stated that private sector cooperatives in collaboration with the government consumed huge chunks of money in the name of investments and funding to set up projects. Further, M.T. Khan et al. (2012) highlighted the different forms of corruption prevalent in the country, which include diverting resources and funds to personal accounts, tax evasion, giving and taking bribes, theft and patronage. He further pointed out the case of public sector banks, where 90% of loan and credit defaulters were a small group of influential people who received amnesties and who received protection from the government. The weak regulatory systems of the State Bank of Pakistan could not protect the banks against such fraudulent activities. The breakdown of internal accountability structures is another reason fraud

is prevalent in the banking sector of Pakistan, as there are fewer checks and balances (Hegney et al., 2006).

Corrupt enrichment sabotages the values and norms within an institution, organisation or society. It slows down the performance of an organisation, be it public or private, and it results in misuse or inefficient use of the organisation's property. A corrupt leader can ruin the organisation through lost or misguided followers, negative value creation, negatively affecting the culture and, in the long term, leading the organisation to decline in terms of productivity, goodwill and reputation (Stapenhurst and Langseth, 1997). In Pakistan, the most prevalent forms of corruption are petty/administrative and grand corruption, where petty fraudulent activities are carried out by the middle classes, and grand corruption cases involve the influential (Javaid et al., 2010).

Osisoma (2012) discussed a corruption case in one of the biggest banks of Nigeria in which the CEO gave large amounts of credit to a client, which was above the bank's credit limit. Bigger loans were made to another company in exchange for a return that directly went into accounts in multiple banks and into buying land/property in different countries. The CEO was later imprisoned for 18 months. Osisoma further highlighted that fraud is resilient as a result of greed when the leader involves everyone in the circle to enable fraudulent activities for personal gain, exploiting the vast majority. The same leaders are protected by higher regulatory authorities on the call of the government, which extends favours to them. Obayelu (2007) pointed out that weak institutions, poor corporate governance, fewer checks and a lack of a code of ethics breed corruption in any dysfunctional organisation.

Khalid (2014) linked ethical leadership with corporate performance and highlighted the need for corporate governance and supervision in any organisation to ensure that ethical leadership practices take place in the organisation. Four local organisations, including two banks, were the focus of the study. Khalid highlighted that transparency and disclosure and ensuring checks and balances always leads to good, ethical and productive leadership.

Regarding banking, we can conclude that one measure to combat destructive leadership is corporate governance and transparent accountability for all business activities. This leads to better organisational performance and a motivated workforce due to fair leadership practices. Good Pakistani banks and companies ensure there is a corporate governance mediator to oversee activities and that transparent audits are conducted. A democratic leadership selection process can be initiated based on transparency and minimising biases, ensuring recruitment of leaders with

non-toxic histories, ensuring objectivity and generating a bigger consensus. Corporate governance and strong accountability systems must be established to watch over toxic leaders and to minimise their effect. Accountability forums must be created in which functional heads can question both the results and the process by which decisions are reached. Educational programmes for employees can be also be created to help them to deal with such pressures and anxieties by teaching them how to control the situation through effective communication or whistle-blowing policies.

There are various other ways of controlling the effect of destructive leadership, such as corporate governance (Lipman-Blumen, 2005). Lipman-Blumen (2005) states that followers can take steps to control the effect, just as they enable further propagation by agreeing to abide by every order of the toxic leader without question. Followers usually fail to take steps to confront the leader because of their rationalisations, which restrict them from understanding how they are being used; the situational factors further strengthen their feelings of helplessness and anxiety, leading them to accept their fate and to succumb to pressure.

Lipman-Blumen (2005) suggested that followers can gather courage and form a coalition with those who also feel sabotaged and pressured by investigating the history of the toxic leader. Opinion leaders and peers of the leader can be used for reference, and the case might be discussed with them. It is wise to avoid solo confrontations that could be more dangerous, in which the statements of the employee could be twisted and used against him or her.

Second, a stronger and safer method of controlling toxic leadership is taking organisational policy measures. Term limits can be assigned to the tenure of the managers in leadership positions; the leader could be given time off to ensure a beginning and end to peak productivity and creativity. Another method is 360-degree performance reviews of leaders that take place periodically, where the reviewers give them regular feedback and suggest further improvements. Respectable departure options can be applied where the leader could be given a year's time and benefits before someone else takes the leader's role.

Akpanuko (2012) highlighted that fraud, corruption and bribery have devastating effects on the organisation; therefore, they need to be controlled. He highlighted different types of corruption that result from destructive or bad leadership like leaders directly ask for bribes, kickbacks and rewards with funds for personal favours. This is called administrative corruption. Leaders engage in grand theft of physical, monetary or data resources. These leaders are also involved in concealment of facts and false representation. Akpanuko (2012) termed this grand

corruption. Moreover, certain leaders also offer patronage and personal favours on the basis of caste, community or geographic location, including employment. This is called patronage corruption. Systemic corruption is when destructive leaders are engaged in organised crime; this includes giving favours and taking a share of the favours.

As corruption cripples the power of law enforcement and accountability, it is necessary to take preventive measures against corruption for better organisational performance and long-term sustainability.

According to W.S. Albrecht and Albrecht (2004), fraud has been defined generically as being initiated by an individual to obtain a personal or group advantage by false representation and cheating, and every individual has his or her own boundary. However, considering the general viewpoint, according to Morales (2004), this is a public issue caused by immorality, leading to immoral behaviour that must be addressed in the corporate environment. It is the duty of the organisation to establish layers of control to ensure fraud and deviances do not take place, and if they happen, the organisation should take corrective measures to address it.

In Pakistan, the previous Pakistan People's Party government initiated the Benazir Income Support Programme (BISP) social cash programme in 2008. BISP is the first-ever robust, standardised, and open social safety net initiative. It was also the Pakistani state's flagship programme for achieving the MDGs. The idea of BISP is based on well-known developmental concepts of social security that are commonly used in both advanced and emerging economies (BISP Report, 2014). The President of Pakistan is the Chief Patron of BISP, which was created by an Act of Parliament under the administrative supervision of the Pakistani PM.

A council with a designated chairperson and an advisory board oversees the programme, which is carried out by an agency. A director, cabinet members from the financial, fiscal, and foreign affairs ministries, as well as non-government members, make up the council. Islamabad houses the Head Office, as well as six regional offices in four key cities and offices in Azad Jammu and Kashmir and Gilgit Baltistan. From across the nation, there were nearly 31 divisional offices and 352 tehsil offices.

The BISP seeks to alleviate the impact of persistent poverty on poor families, as well as the effects of rising food and fuel market increases. It has gradually evolved into the nation's primary safety net network. BISP offers 5.3 million low-income females with monthly transfer payments of value ranging from PKR 1500 (\$14.25/month) to PKR 1500 (\$14.25/month) (BISP

Report, 2014). According to recent statistics, one-third of Pakistani households are impoverished, with 21% of those living in extreme poverty (SDPI Report, 2012 BISP subsidies are available to women from the poorest and most disadvantaged areas of society who live in abject poverty and have monthly earnings of less than PKR 6000 (\$57). BISP seeks to economically empower women by focusing on females as household members. Females from all provinces and cities, including Sindh, Punjab, Baluchistan, Khyber Pakhtunkhwa, Federally Administered Tribal Areas (FATA), Azad Jammu and Kashmir (AJK), Gilgit Baltistan (GB), and Islamabad Capital Territory, are qualified to participate in the programme based solely on economic deprivation (BISP Report, 2014).

BISP has Pakistan's largest database of poor families, according to the National Database and Registration Authority (NADRA), which was developed after the biggest and first door-to-door poverty study. The first of its type in South Asia, the poverty spreadsheet survey was launched in October 2010. It aided BISP in objectively identifying 7.7 million "lowest income of the poor" families. The World Bank and the UK's Department for International Development (DFID) provided monetary and technological aid for the poverty scorecard. It calculated the welfare condition of families, in relation to size, asset possession of household members – using a proxy minimum income.

In addition, the poverty scorecard included data from the Global Positioning System (GPS) for each household. This improved the survey's precision, objectivity, and replicability, making it more useful for developing emergency plans in the potential (BISP Report, 2014). The data is used to prepare pro-poor sustainability policies and programmes, and it is exchanged with various global organisations through policies and procedures. Many developing nations, such as Bangladesh, India, Ghana, Mongolia, Cambodia, and Nepal, have been motivated by BISP's organisational design, feature separation, and ground-breaking technology-based system to introduce similar initiatives to promote the living standards of their thousands of families (BISP Report, 2014).

When the BISP programme began in 2008, there was a lack of accurate data to classify low-income households. Members of parliament were tasked with identifying disadvantaged households and selecting "handpicked" households. Parliamentarians were given an equal number of application forms (800 for members of the National Assembly and Senate and 1000 for members of Provincial Assemblies) who defined beneficiaries in their respective localities. The categories were checked

against NADRA's database, and 2.2 million families got cash payments at first (BISP Report, 2014).

Following the implementation of the poverty scoring system in 2010, the first change in the programme was linked to objective beneficiary targeting. Enumerators went to each household or chose a central location in the village or neighbourhood where the bulk of residents tried to come to get their scorecard applications filled out by respondents. This selection scheme enrolled qualifying recipients into the programme because enumerators were not affiliated with any political group. The poverty scoring system was unaffected by unique qualitative aspects of marginalisation and exclusion, such as local power dynamics, rank, kinship, regional affiliation, and religious minorities, all of which were used to identify genuine recipients (BISP Report, 2014). This was a rare case of a constructive and objective social program that extended out to all deserving families in Pakistan.

The distribution of welfare benefits was the second stage. Politicians used to offer money transfers or by money orders, which were then distributed by postmen. These intermediaries requested "baksheesh" (bribes) from women in order to ensure that payments were sent to their homes in future. Following the launch of the poverty scoreboard in 2010, BISP began using digital tools to disburse payments, comprising smart cards, cell phones, and debit cards. Even so, the utilisation of digital payments was an effort to avoid the involvement of local patrons or officials in the grant distribution process. Many legislators opposed the transition because the implementation of digital solutions deprived them of political influence, reducing their leverage, prestige, and legitimacy in their local communities. By removing the middlemen, moving to digital payment channels brought accountability, transparency, protection, and productivity to the offer disbursement cycle. BISP also rendered it compulsory for women recipients to enrol with the NADRA, which provided computerised national identification cards (CNICs) to all recipients (BISP Report, 2014), in order to obtain online transactions.

Even the most conservative females who wore the veil, came out of their homes to have their pictures taken and biometrics registered for BISP enrolment. The issuance of identification cards was a successful initiative taken by BISP to promote women's social equality. Mobile banking ventures were mainly limited to five Pakistani cities: Islamabad, Rawalpindi, Larkana, Layyah, and Battagram. Cell devices were largely supported by banks and telecom providers in these districts and given to recipients at no expense. Cell devices were eventually replaced by the Benazir

Debit Card as a result of the high costs associated with scaling up m-banking projects across the world. These cards have been considered as more cost-effective ways for recipients to collect their funds. About 94 per cent of recipients earned payments through digital technologies, as per the BISP Report (2014). As per the statistics, between 2013 - 2015 BISP was mainly funded by the Pakistani government, with payments surpassing PKR 70 billion (USD \$667,908,500). It also provides unparalleled financial and technical assistance from international institutions and bilateral donors such as the World Bank and the Department for International Development (DFID) (BISP Report, 2014).

Besides that, it was reported that banks provided “special purpose accounts” to programme participants. There were mostly conduit accounts that could only be used for BISP distributions. Females were unable to conduct financial transactions from their accounts because they were not “financially inclusive.” This contained money transfers, savings deposits, and bank microcredit/insurance applications. This account limit reduced their economic involvement as well as any incentive schemes to engage in micro-entrepreneurial practices.

Financial inclusion was reinterpreted by some BISP officials as financial literacy and learning. M-banking was found to have given women a basic understanding of how to use their phones (Kemal, 2019). As a result of improved digital and financial literacy skills, a steady increase in women’s growth curves was observed in the beneficiary regions.

In another case, owing to an ‘input mistake,’ the daily cash withdrawal cap of Pakistan Rupees 25,000 was also not exercised, allowing the fraudsters to perform several transactions and deduct an infinite sum before the devices run out of money. It should also be noted that the above “mapping bug” had no impact on ACB Bank’s own consumers who used its ATMs as no layout was required domestically. Any ATM’s Printer Journal Log is called the ultimate most reliable record of the ATM. It’s known as the ‘Black Box’ of ATMs and Pakistani banks have been targeted to have these issues one after the other especially after the global crises of 2008. Thermal jet printers are usually used in printer journals instead of glossy paper rolls. The print on the glossary paper normally fades away within two months due to the design of the paper (Kemal, 2019). As a result, banks must maintain printer journal records in the type of electronic loses.

The ACB Bank’s ATM Controllers did not have e-journaling to document ATM-specific activities, such as purchases, as reported. Because of the above shortcomings of thermal jet printing, the majority of the paper documentation of fraudulent payments was illegible. All

commercial banks with ATM networks in Pakistan were expected to carry out ATM cash handling and repayment each working days at a period set by their head departments as per the State Bank of Pakistan Guidelines for Standardisation of ATM Operations issued in 2006. This period, though, should not be throughout rush periods or trigger ATM services to be disrupted for an extended period of time. Although the interbank ATM settlement process was present in ACB Bank's Main Branch, it was found to be inefficient and ineffective (Kemal, 2019). With no automatic reconciliation scheme, only a few employees were assigned to the ATM reconciliation unit.

The manual reconciliation of almost 5000 transactions a day was virtually impossible, resulting in the fraud not being identified at an earlier stage. The fraudulent transactions went on for 89 days in a row. According to Shaikh (2011), the role of proof gathered and analysed during the post-fraud scenario is extremely important. The proofs in the e-banking world have been divided into two categories: primary and secondary. The ATM or system-based reports are produced and reviewed for validation, accuracy, and the comfort of the respondent in primary facts. The majority of complaints are handled using data gathered and analysed from primary sources. Most advanced crimes committed on ATMs, such as skimming, card/cash capturing, and transaction reversal frauds (TRFs), use secondary proof obtained by developed event-snap monitors and CCTV video. Due to the significance of primary and secondary proof, the State Bank of Pakistan required all commercial banks in Pakistan to construct CCTV Surveillance cameras to track and record all behaviour in the ATM region in its Operational Guidelines on ATMs provided in 2007. ACB Bank's ATMs were not equipped with CCTV cameras, according to the investigation.

Few of its ATMs also lacked built-in event capture cameras, resulting in the absence of secondary proof that could have assisted ACB Bank in detecting the fraudsters. The cardholders were detected, and the corresponding issuing banks were notified for the restoration of the missing cash based on the information given by the systems produced reports. Employment reports, which act as an efficient internal monitor, record any occurrence, change in any device entity, and account activity of any client, as well as the date and period so that any unwanted changes can be detected quickly and conveniently. Proof of changes in the system by approved users would also be lost if job logs were lost. ACB bank's upper management appeared unconcerned about the general protection and stability of e-banking networks, particularly ATMs, that would have prevented the fraud (Kemal, 2019). A few days after, the fraud case happened, senior management at ACB Bank

released directives on internal monitoring over ATM Help,' implying that the internal staff functioning at ACB Bank was inefficient.

Customers' preferences in choosing and using these E-Banking Channels for performing both monetary and non-monetary payments have shown a steady increase in ATM transactions in Pakistan over the period. ATM fraud has offered up new pages in the IT protection portfolio at the same moment, requiring a fair amount of effort from upper management in blocking ATM fraud in its initial stages. Furthermore, several techniques can be used in conjunction with appropriate fraud detection methods and programmes to help identify and avoid e-frauds. Internal controls that are effective offer fair security to management in terms of fraud reduction and monitoring. The central bank's guidance and directives must be carefully followed. Their enforcement would aid banks in reducing e-banking threats, detecting e-fraud, and preventing and protecting e-banking resources, such as ATMs. A fully managed ATM solution has been suggested for ACB Bank, based on the nature of the fraud and a comprehensive investigation of the bank's internal control processes and shortage of upper management participation and understanding of ATM operations. A third party or Independent Selling Organisation (ISO) can be approached under this approach to implement and maintain ATMs, include monitoring and treatment tests (Kemal, 2019). Ultimately, it helps in maintaining the ATMs' protection and stability and the ACB Bank Limited has been in charge of cash resupply.

Few techniques for managing extortion are reported in accounting writing; none are definitive because they differ in line with the extortion's job. In either case, establishing and enforcing internal control mechanisms, as well as state laws, play a critical role in their management. The establishment of regulatory mechanisms such as external review, internal review, anti-fraud regulations, and review panels in specific, aid in lowering the cost of extortion.

### ***Corporate Governance and the Fraud Triangle***

Corporate governance in banks has become imperative to ensure that a balance is maintained among the interests of all shareholders and that fairness is observed in all the bank's business dealings (Pamungkaset al., 2018). The governance principles for banks are therefore intended to prevent fraud in all its forms directly within the sphere of banking operations.

The fraud triangle theory states that fraud is enabled by three elements—opportunity, rationalisation and pressure or incentive (Pamungkaset al., 2018). If the bank governance

framework is an effective deterrent of fraud, it should have features that prevent the occurrence of any or all of the three essential components of fraud.

**Opportunity**—This is present when the perpetrator has the necessary skill to commit the fraudulent act without being caught as a result of weak internal controls. There are two requisites for the opportunity—the necessary skill and weak internal controls (Soltani, 2014). The skill is something the bank cannot control since it must undertake the training of its personnel, particularly those who have discretion to execute transactions, to give them the necessary skills and specialised knowledge. However, the guidelines do mandate that the bank adopts a regime of tight controls as well as monitoring and reporting structures. IT solutions are available to provide control measures and to detect early signs of irregular transactions so that the internal auditors, top management and the board may be immediately alerted.

**Rationalisation**—This refers to any personal reason or explanation the perpetrator of the fraudulent action may use to justify his or her action, to mitigate guilt or to cover his or her real intentions. Corporate governance may address this by limiting as far as possible any justification that may provide the perpetrator with an excuse to take advantage of unexpected opportunities (Soltani, 2014). Corporate governance principles allow the adoption of policies and restructuring of protocols that may narrow any pathway for unscrupulous persons to access the bank's database and other sensitive records (Soltani, 2014). By limiting the reasons for authorisation, security gateways in the IT system may immediately flag unauthorised entries and eliminate justifications that may legitimise the perpetrator's actions.

**Pressure**—This pertains to the incentive or financial compulsion to commit fraud. It differs from rationalisation in the sense that rationalisation is a logical device, while pressure is emotional or affective in nature (Minhas, 2016). If the fraud being perpetrated were a calculated act performed by a habitual criminal, then the motive would be driven by criminal intent for monetary gain. If any of the bank employees have a criminal history or a psychological tendency to indulge in crime, then the governance framework under the risk assessment function may provide for more sensitive employee psychological testing and more intensive background checks.

On the other hand, persons who are motivated by pressures brought about by financial need or emotional distress, but who are otherwise law-abiding individuals, may be sounded out early enough through the human resources department, which may or may not be associated with the corporate governance function (Minhas, 2016). What corporate governance may seek to screen is

the likelihood that persons may have potential conflicts of interest in their jobs with the bank arising from their circumstances. Conflict of interest situations should be avoided in all bank functions. Therefore, vulnerable individuals should not be placed in positions of authority that may tempt them to engage in fraudulent actions (Thakor and Boot, 2008; Peters and Handschin, 2012). According to a Deloitte report by Asad Ali Shah (2004), conflicts of interest and fraud in the Pakistani corporate landscape are characterised by destructive leaders who can manipulate followers into participating in fraudulent activities through the following:

**Perceived opportunity**—Circumstances exist such as the absence of controls or ineffective controls, and the ability of management to override any existing controls, convincing would-be fraudsters that they will not be detected or caught, and they will not be subject to consequences.

**Pressure/Incentive**—Management personnel or other employees may be under pressure, either from leaders within the organisation or due to their own personal agendas, which provides the motivation to commit fraud.

**Rationalisation/Attitude**—Those who are involved in the fraudulent activity or conspiracy to commit fraud are capable of rationalising to themselves that their actions are consistent with their personal codes of ethics. The individuals possess in themselves an attitude, character or ethical values that allow them knowingly and intentionally to commit dishonest acts (Shah, 2004).

### ***The Role of Authorities and Top Management***

Whistleblowing is defined as “the disclosure by organisation members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers to persons or organisations that may be able to effect action” (Secunda and Estreicher, 2009, p. 484). It also occurs when an employee or ex-employee conveys information concerning a major moral dilemma to any person in a position to take action on the problem, and does so outside the regular organisational channels, or against strong pressure (Arszutowicz and Gasparski, 2017).

Whistleblowing is an important and effective means of fighting corruption within an organisation, particularly a banking corporation. However, it is a covert act that is done under extreme pressure and outside of the normal organisational channels, and it frequently exposes the whistle-blower to extreme peril. For that reason, laws and regulations are now in place in many jurisdictions, and in the international banking regulations, to protect whistle-blowers as far as possible (Schultz and Harutyunyan, 2015). Generally speaking, as a matter of policy all persons in authority such as

external and internal auditors, the board of directors, top management, and even central bank auditors and regulators are mandated to give due course to disclosure from a whistle-blower, whether the report of the disclosed irregularity turns out to be correct or not (Kohn, 2017; Thüsing and Forst, 2016; Jensen, 2013).

A difference in the chronology of the system of ownership and control can be felt between bank leadership and those required to look into the fraud. It is the responsibility of the authority to exert pressure to ensure the integrity of the system towards maintenance and the prevention of fraud in the banking sector. The constantly evolving response to the specific crisis of fraudulent activity within a bank requires the utilisation of pressure to allow for the implementation of continual changes in the prevention of fraud within the banking sector, which is considered as an ideal element of corporate governance.

Among the bank officials and personnel in positions of authority, those who play a central role in effective whistle-blowing procedures are the internal auditors. The internal auditing function deals with internal control and other issues that are the crux of disclosures by whistle-blowers, and internal auditors are in a unique position to offer boards of directors independent and objective advice, assurance and support. However, there are dangers and potential conflicts of interest that may disqualify a person from accepting an internal auditor's position. Most institutions have begun to outline and define the role that internal audits may play in the formal whistle-blowing process more closely. The aim is to enable internal audits to control weaknesses, malpractice and criminality more efficiently by partnering with whistle-blowers towards this end (Chartered Institute of Internal Auditors, 2014). An example of an effective framework for whistleblowing arrangements is the Combined Code on Corporate Governance published in July 2003, which describes in detail the code of conduct that auditors and audit committees must follow in the case of whistle-blower disclosures (Institute of Chartered Accountants, 2004).

Top managers and executives in the bank likewise play an important role in the whistleblowing procedure, although not all employees are convinced of the effectiveness, or wisdom, of involving the CEO and other bank officers. It is understandable that employees and members of the organisation of lower stature would fear reporting malpractice or fraudulent activity to any member of the management team, because more likely than not, the preponderant activity would involve one or more of the managers or even executives. However, in jurisdictions where there are strong regulations and laws protecting whistle-blowers, even CEOs and members of the board may be

the subject of checks by possible whistle-blowers. Furthermore, the law now takes the side of the whistle-blower, particularly when there is evidence that detrimental action has been taken against them by management, which happens in many cases (Ramanathan et al., 2014). However, where the CEO or top managers have the trust of their people and are not involved in controversy or suspicion, such managers can provide vital support for whistle-blowers in eliminating fraud and malpractice in the organisation (Deloitte, 2014).

In Pakistan, there are explicit provisions in the Revised Code of Corporate Governance 2012 (amended July 2014) covering the responsibilities, power and functions of the board of directors. They state that the boards of directors of Pakistani corporations must provide for a whistle-blower policy in assuring the good governance of the bank. Furthermore, the same law places the operation of the whistle-blower policy under significant issues for the board of directors. By virtue of the amended code, the jurisdiction to decide on issues concerning the whistle-blower protection mechanism and its proper observance rests with the board (SECP, 2014). The provision, however, is loaded with implications concerning the weight of its enforcement. Consistent with the observations of Ramanathan et al. (2014), CEOs and top executives of the company may typically be the subject of a whistle-blowing episode; therefore, despite the SECP placement of jurisdiction for decision-making on whistle-blower protection on the board, board members may not attribute blame, or they may try to conceal their culpability behind lower management.

As part of corporate governance in the financial sector, it is the responsibility of the leaders to ensure rationalisation in all areas of the banking sector. Following the idea of rationalisation, the management must report the performance of quality management systems and opportunities for financial improvement. According to Erickson et al. (2015), the authorities must allow employees access to the assets and information they need to mitigate fraud. By preventing rationalisation, the authority must motivate all stakeholders to control or limit opportunities for fraud.

Regarding the role of central banks and their auditors, each national jurisdiction will have its own policies and provisions which, nevertheless, should be supportive of the whistle-blower. As a model, this discussion focuses on the banking supervision function of the European Central Bank (ECB) (Williams, 2018). The ECB has declared that it is committed to tough but fair banking supervision, and it seeks to ensure that all banks and banking supervisors fully adhere to the regulations. However, there are occasions when banks take deliberate action, possibly in connivance with banking supervisors, to conceal wrongdoing. In such instances, whistle-blowers

who may emerge to inform the ECB of possible malpractices are deemed to be in the service of the public interest and are afforded the cooperation of the ECB (ECB, 2015).

In Pakistan, the Central Bank and the SECP play the roles of enforcers, as can be seen in the case of the Crescent Standard Investment Bank, Ltd. (CSIBL), part of the larger Crescent Group in Pakistan. On the basis of incontrovertible evidence of extortion and illegal bookkeeping practices, the CEO and the entire top management tier were ordered to cease operations. Rs. 2.1 billion was missing from the bank, and “illicit upkeep of parallel records, covering of bank resources, and unapproved huge subsidising of gathering organisations, unlawful interests in land and securities exchange” were the basis for the SECPs move against the organisation and its officers. The measures were, and continue to be, sadly inadequate, however. Political interference played a role in mitigating the sanctions meted out to CSIBL, since a well-ensconced federal minister had a notable stake in the Crescent Group and was wary of being involved in the scandal. A rumoured Rs 2 billion was intended to be transferred from the NBP into CSIBL despite the negative report from the SECP, but for some reason, this did not materialise (Shehzad, 2017).

#### ***Non-Adherence to Corporate Governance at the Top-Level Leads to Fraud***

Rahman and Anwar (2014) clearly demonstrated how top-level non-adherence to corporate governance leads to fraud. Through their assessment of a fraud in Malaysian banks and the link to the top management, Rahman and Anwar noted that fraud occurs due to the failure of managers to ensure adherence to the rules of corporate governance. Their findings indicated that the Malaysian banks with the most cases of fraud had weak internal regulation, oversight and stewardship. Rahman and Anwar noted that banks whose top managers, boards of directors and internal auditors fail to take responsibility for ensuring accountability, transparency and proper governance structures have had many cases of fraud linked to financial pressure. Rahman and Anwar (2014) attributed some of the frauds such as fraudulent statements, identity theft and financial fraud to a lack of adherence to corporate governance.

As already indicated, corporate governance requires accountability for the stewardship of resources. One major way of enhancing accountability is setting up strategies to ensure effective communication within the banking organisation and between the banks and their clients (Letta, 2017). One of the major benefits of building enhanced communication strategies within the banking system is enabling whistle-blowers to report cases of fraud. However, the failure of top-

level managers to adhere to corporate governance requirements such as enhanced communication results in fraud. Through the examination of a bank fraud in the Ethiopian banking system, Letta noted that the failure of the top management to encourage strong information and communication sharing negatively affected the internal control system practices within the banks. Letta argued that the lack of top managers with ethics and integrity created an environment within the organisation for fraud to flourish. Thus, the occurrence of fraud in the banks is also linked to the failure of the managers to check deficiencies reported by the internal auditor, thereby creating an opportunity for fraud to occur. (Letta, 2017) further noted that fraud is also linked to the failure of managers to take responsibility for effective employee requirement process.

According to Ogola et al. (2016), the occurrence of bank fraud depends on the behaviour and attitude of the bank leadership towards corporate ethics and organisational culture, as explained by the fraud triangle. Based on the findings of Ancaet al. (2013) and Murphyet al. (2011), top leaders who do not adhere to the principles of corporate governance such as accountability, transparency and ethical conduct are likely to encourage fraud in their organisations. According to Ogola et al., and Naidoo (2012), the integrity of top leaders and their commitment to the code of corporate governance inspires adherence to the internal control system, which effectively limits the occurrence of fraud. Top leaders who lack integrity are less likely to address financial reporting fraud (Ogola et al., 2016).

Ariail and Crumbley (2016) also explained how top-level non-adherence to corporate governance leads to fraud with the term tone at the top. According to Ariail and Crumbley, the tone of top leaders regarding corporate ethics impacts the opportunity for and the rationalisation of fraud. The importance of the right tone at the top was also emphasised by Goolamally and Ahmad (2014), who noted that top leaders with excellent character tend to inspire trust, loyalty and adherence to corporate governance. Campbell and Görizt (2014), in their assessment of the data from 14 expert interviews, noted that leaders who use a tone that suggests the need to achieve results, regardless of the approach, tend to encourage fraud and corrupt deals in their organisation. Jondle et al. (2014) suggested that the organisations whose top leaders fail to lead by example are often implicated in unethical practices. King (2013) also argued that top leaders who do not adhere to ethical practices often encourage the use of unacceptable accounting practices.

## **2.8 Leadership**

Lipman-Blumen (2005) discussed various types of leadership and leader behaviours of high and low intensity. If an enterprise endeavours to improve the organisational performance, the crucial role would be of the administrative supervisors and the leadership style they adopt (Fu-Jin Wang, 2010). Empirical findings and some recent researches point towards organisational performance, employee emotional commitment and job satisfaction are results desired by the corporate leadership (Drucker, 2007). Researchers suggest that leaders are in the best position to motivate and assist their teams in today's competitive environment to succeed using appropriate leadership styles (Bruback, 2006). In Pakistan the leaders in the public sector organisations are reluctant to break the status quo and promote innovation. Leaders motivate by involvement, communication and high visibility for efficiency and productivity. This style involves of management in meeting goals at each level. Leaders focus is the vision and the big picture within the organisation and he entrusts the team to accomplish goals with smaller tasks (Fatima et.al, 2011). Leadership plays an imperative role in driving the work force, planning, executing and achieving goals. Leadership style may be of the following types that in certain way or the other works towards prosperity and goal achievement.

**Transactional Leadership:** Managers who adopt this style assign certain tasks and rewards/punishments based on performance evaluation according to certain explicit criteria. Managers set pre-set goals with the involvement of the team who in turn agree to pursue the direction of their leaders and accomplish their goals (Judge 2004). The leaders have the authority to review results and reinforce training for the employees when goals are not met. Goal accomplishment is rewarded tangibly (Judge 2004).

**Participative Leadership:** This can also be viewed as democratic leadership as in this style the leader considers the views of the team, but the final decision rests with the leader. This involvement boosts employee morale. This gives them a feeling that their opinions matter in the decisions of the organization (Dolatabadi et al. 2010). When an organisational change is needed, the participative leadership style facilitates employees to accept the changes with ease considering it their own decision. This style overcomes challenges when organisations need quick decisions and their implementation (Dolatabadi et al. 2010).

**Autocratic Leadership:** Managers make decisions themselves with no input from any team member. Total authority rests with the leader to impose his will. The decision of autocratic leader

cannot be challenged. Some countries work under autocratic leaders such as in Cuba and North Korea. This style is of benefit to those employees who are unskilled, inexperienced, under training and hence require close supervision. Creative teams thrive in group functionalities and disregard this leadership style (Dolatabadi et al. 2010).

**Laissez-Faire Leadership:** A leader practicing laissez-faire does not directly supervise employees and fails to give frequent feedback to the team. Experienced employees fall under the laissez-faire style of leadership. But, all employees do not have the characteristics to work on their own. This style deters the capabilities and productivity of employees who need supervision. It requires no supervision from the leader, which leads to negative production, need for control and cost burden (Ronald, 2011).

**Consultative Leadership:** A consultative leader is open minded as he encourages the team for their comments and suggestions. Good suggestions are accepted. However, decision making is in the hands of the leader. Hence, he takes complete responsibility for all the decisions (Ronald, 2011).

**Sociocratic Leadership:** The sociocratic leader puts his efforts to make the organisation work like a club or a social place. Giving minimal importance to work and productivity he emphasizes on friendship and a social presence. To keep subordinates contented and happy he creates a social environment in the organisation (Ronald, 2011).

**Situational Leadership:** Situational leaders use different styles in different situations. He alters his style of managing the teams according to the dynamics of the situation. In different situations and with different types of teams he would be either autocratic, or participative, or consultative, etc. At present, most leaders use this style of leadership to cope up with the diverse work force and the dynamic environment (Ronald, 2011).

In this competitive and globalized market of 21st century, the need to leadership is indispensable. The whole responsibility of managing the nation lies on the shoulders of leaders. In other words, it can be said that the country stands up due to the dedication and efforts being put up by various leaders. In order to have long term profitable growth of the economy, the need for perfect and effective leader is quite apparent (Chonko, 2004).

### ***2.8.1 Destructive Leadership***

Many others, like Schilling (2009) and Kresikova et al. (2013), have significantly contributed to setting the foundations of the definition of destructive leadership, stating that destructive leadership is a deliberate, repetitive behaviour that harms the organisation or achieves personal interests, which are illegitimate and unethical. Furthermore, deKluyver (2000) conducted an extensive research study on contextual factors that breed such leadership, such as levels of engagement, motivation levels of followers, and followers' different personality types.

Rosenthal and Pittinsky (2006) described other destructive leader types and attributes. They stated that destructive leadership processes usually involve dominance, coercion, control and manipulation instead of influence, persuasion, and commitment. Hogan and Kaiser (2005) shed light on followers' psychological well-being and their personal and organisational destructiveness. Most researchers have studied destructive leadership from the leader's point of view (Kaiser et al., 2008), but very few have taken followers' personalities into account or the turning point at which conformers become colluders. Other researchers believe that many research studies on destructive leadership focus on the leader's personality and traits, without considering the leader's overall effect on the organisation and how it further nurtures destruction within the organisation.

Furthermore, Langseth (1999) discussed the origin of corruption and nepotism in Pakistan and its organisations. Maqbool (2000) and Shah (2004) explained the reasons for the prevalence of fraud and corruption in Pakistan, blaming poor policies and procedures, poor accountability and no service attitude. M.T. Khan et al. (2012) and Akpanuko (2012) highlighted the most common types of corruption in the country: diverting resources from personal accounts, tax evasion, bribery and theft, which occur due to poor corporate governance. Khalid (2014) shed light on solutions to counter corruption in organisations, proposing behavioural changes and strict accountability to overcome this.

Thoroughgood et al. (2011) raised very interesting questions about why followers succumb to pressures from destructive leaders and what kinds of checks and balances need to be in place to counter or diminish the effect of this on the organisation. Sedikides and Brewer (2001) suggested the attributes/intentions of a leader that lead to corruption and determined different types of motivation levels of leaders.

Toor and Ogunlana (2009) discussed the traits of a destructive leader, followers, and the environment, but they did not highlight the main attributes that affect the followers, causing

derailment from organisational goals and leading to the pursuit of self-interests. Further, Bass (1990b), and Lewin et al. (1939) discussed types and causes of negative leadership and the personality types of a leader. Schilling (2009) independently highlighted organisational aspects that are commonly weak due to destructive leadership and the point where such leadership further nurtures negative leadership.

While going through and considering the research findings from various researchers on destructive leadership, the researcher failed to identify a single research study on identifying the attributes of a leader or elements of destructive leadership in the banking industry of Pakistan that affect the followers' behaviour (considering the most prevalent type) in leading the follower to support organisational corruption. The traits of leaders and followers have been identified together without considering the long-term effects on the organisation. In other cases, different types of leadership have been defined without considering the effect on followers. In addition, contextual aspects breeding leadership have been identified independently without considering the relationship of all the aspects. Limited research has been done on organisational corruption with respect to leadership in Pakistan's banking industry, without any consideration of the employee/subordinate factor. Thoroughgood et al. (2011), Chaleff (1995), Uhl-Bien and Carsten (2007), Kellerman (2004), and Higgins (1997) worked on the taxonomy of follower personality and the categories of needs for independent followers, but they did not match individual categories with individual leadership styles, considering the culture within the banking industry. Will (2012) discussed the followership of a destructive leader and the ways followers choose their leaders (leadership energy, collective leadership, and connection with the leaders on emotional, spiritual, intellectual and psychological grounds) but did not consider the effect on the organisation of different leader/follower intentions.

The most relevant research paper to this study is Einarsen et al. (2007), which explained supportive-disloyal leadership covering pro-subordinate behaviour, like giving employees praise, concessions, leniency, and care and consideration; all this earns the leader the utmost respect, support and loyalty. This way, the leader goes on achieving his or her personal goals over organisational goals. Einarsen et al. also explained anti-organisational behaviour, which can be attributed to low work ethic, theft and other fraudulent activities.

Robbins (as cited in Ramlall, 2004), defined employee motivation as the willingness to exert high effort levels towards the goals of an organisation that are conditioned by the ability to

fulfil some individual need. To motivate employees, managers must understand the unsatisfied needs and wants of employees. Kovach (1995) stated that employee motivation has witnessed a long-term and long-lasting success in most organisations. Wong et al. (1999) categorised job motivational factors into two factors: extrinsic and intrinsic variables. Intrinsic variables include interesting work, supervisor help with personal issues, feelings of being involved, full appreciation for a job that is performed well and career or promotion development (Kovach, 1995; Wong et al., 1999). On the other hand, extrinsic variables involve good wages, good working conditions, job security and tactful discipline. Simons and Enz (1995) pointed out that employee motivation is the result of a force that pushes people to perform a specific job, stay at the job and put in effort. Ramlall (2004) referred to employee motivation as internal factors that support and energise behaviour. Schalk and Freese (1997) inferred that employee loyalty is strongly associated with behaviours, such as turnover, attendance and organisational citizenship. Hiltrop (1995) suggested that employers are searching for unique approaches for promoting loyalty.

According to James et al. (1997) and James et al. (2002), employee loyalty is a psychological commitment or attachment to the organisation that increases satisfaction. At the same time, satisfaction can result from the internal evaluation process, and if the level of employee expectation is exceeded or met, then satisfaction automatically grows. It creates an emotional attitude in an organisation (James et al., 2002; Reichheld and Teal, 1996). Such attitudes towards the organisation increase the loyalty behavioural component (James et al., 2002; Reichheld and Teal, 1996; Rosin and Korabik, 1991).

Employees who develop a bond with the firm are more likely to behave and work loyally towards overall organisational goals like greater efficiency, enhanced productivity, and high-quality service orientation to consumers. The factors that improve employee loyalty, such as competitive pay (James et al., 1997; Reichheld, 2001; Reichheld and Teal, 1996), create a dialogue or open communication with workers (Reichheld and Teal, 1996; Rosin and Korabik, 1991) and good working conditions, recognise the broader context of the lives of employees, provide employees with constructive feedback both informally and formally on a regular basis, create partnerships (James et al., 1997; Reichheld, 1996; Rosin and Korabik, 1991), advocate for employees, emancipate empowerment, action or freedom to succeed, provide a learning environment, assist uncommitted employees to leave and so on (James et al., 2002; Reichheld and Teal, 1996).

Baumruk (2004) and Reichheld and Teal (1996) defined employee engagement as intellectual and emotional commitment to the organisation in addition to discretionary effort quantity. Truss et al. (2006) and James et al. (2002) indicated that employee engagement is a passion for work that includes three engagement elements. Ferguson (2007) pointed out that employee engagement cannot be measured. Robinson et al. (2004) mentioned that it is one step up from commitment. May et al. (2004) and Robinson et al. stated that safety, availability, and meaningfulness are all positively and strongly correlated with engagement. Buchanan (2004) and Cullinane and Dundon (2006) mentioned that employee engagement is the extent to which employees engage with some factor or person in the organisation, and that how long they remain engaged is an outcome of their employee commitment. From a human resources perspective, engagement continues to be significant in organisations (Cullinane and Dundon, 2006; Truss et al., 2006). Organisations also have to strike the right balance between enhancing and fostering levels of employee engagement (May et al., 2004; Truss et al., 2006).

According to May et al. (2004) and Cullinane and Dundon (2006), ethical leaders must have specific behavioural traits. Leaders must be aware of decisions relating to ethical aspects, but they may consciously discount or disregard them. May et al. and Buchanan (2004) pointed out that ethically consistent employees expand and maintain high standards for ethical value without rationalising or making inconvenient exceptions, and they are ethically candid.

Chughtai (2013) attempted to highlight the role of employee engagement between people related practices and employee motive to leave the organisation. The staff of telecom industry felt that people practices if implemented in a proper way help employees perform their jobs in an amicable manner. Competence development makes the employees understand that they are asset of the organisation, and that organisations have to take care of them. The elevation of employees within the organisation improves the career of employees. A competitive pay structure brings employees to a desirable mental contentment state and eradicates negative thoughts that result in inferiority on the job Chughtai (2013). Motivation given to employees by supervisors and managers provides them with a sense of realisation, and their potential and efforts needs to be accredited and accepted. Granting employees authority to make decisions and making them accountable for their performance results in a higher responsibility level from employees. An overall workplace policy that encompasses flexible time and jobs, holidays, personal life balance

and a friendly environment contributes to employees' productivity and attachment to the organisation. Human resources practices facilitate employee engagement.

The Right Management Company (2009) refers to employee motivation and engagement that is directly linked to a range of business success factors: efficacy of employees their safety, performance, productivity, profitability, motivation and satisfaction. The organisation's culture, leadership ability, strategy execution, processes and structures are all interrelated with levels of employee engagement. Some fundamental engagement factors work together, like great customer experience and profitability. Engaging employees leads to increased retention, productivity, customer profitability and loyalty. Organisations must focus on both the lag and lead indicators of business success; therefore, business leaders need to know about the levels of engagement in the same way they need to know about other critical management information, like productivity, financials and customer data. A robust business-oriented measurement and analysis are needed to recognise the key drivers of engagement for the organisation.

Schroeder-Saulnier (2009) conducted an investigation to analyse and provide strategies for collective and individualised goals. Strategies for effective collective and individualised goals in an organisation provide acceptable encouragement and development for supervisors to lead employees through the change, provide mentorship and coaching to supervisors who need help, measuring objective achievement and success, constructing active communication channels, including top management, and understanding previous change initiatives. Such processes cannot be afterthoughts. A comprehensive effort that involves all levels of the organisation, driven by top management, is required. Collective and individualised goals are needed for the effectiveness of an organisation. To succeed and thrive in today's turbulent and rapidly moving market, organisations need an agile workforce, which can immediately adapt and respond and perform under these conditions for organisational effectiveness Schroeder-Saulnier (2009). Plans must be developed with measurable goals, identifying and developing effective behaviours in change management within the workforce.

### ***2.8.1. The Meaning of Destructive Leadership***

Many powerful organisations have been studied in the context of destructive leadership, and there are many cases of institutions suffering great economic and reputational losses due to destructive leadership. There are many reasons for destructive leadership, and no single reason can account for it (Meindl et al., 1985; Meindl and Ehrlich, 1987; Tepper et al., 2006).

Most researchers have studied destructive leadership from the point of view of the leader, including its traits, behaviour and effectiveness. Very few have investigated followers' personalities and responses that further the goals of the leader (Kaiser et al., 2008). Followers have always been considered mediators who neutralise or bring leaders' plans to action, neglecting their personalities, individual needs, comfort/discomfort, and influence. Destructive leadership has also been defined in the context of a leader's traits and personality, instead of what destructive leadership holistically is and what it entails (Bardes and Piccolo, 2010; Einarsen et al., 2007; Ferris et al., 2007; Padilla, 2012; Schilling, 2009; Thoroughgood et al., 2011).

Some have argued that a bad leader and his or her leadership style can be evaluated by the level of destruction it creates and its destructive effect. Padilla et al. (2007) supported this argument by quoting Hitler's example. Others highlighted that the negative effect of psychological and emotional restlessness on followers cannot be ignored (Harvey et al., 2007; Restubog et al., 2011; Schat et al., 2006; Tepper, 2000; Tepper, et al., 2004; Tepper, et al., 2007).

Thoroughgood et al. (2011) raised very interesting questions in their paper: Why do followers and the organisation's compliance teams allow such behaviour when they know it is destructive? Why are these leaders hired in the first place? Why do followers succumb to the destructive leader's pressures and hostility? What are the checks and balances that could enable and control the effect of bad leadership on the organisation in the short and long run?

After studying findings on related topics, Einarsen et al. (2007) proposed a definition of destructive leadership as a repeated behaviour by a leader that sabotages the interests/image of the organisation, its policies, goals, resources, and the mental, emotional, and physical well-being of the followers. The behaviour of the individual/leader will influence the organisation. That is why it is mentioned in the organisational analysis and the individual analysis.

### ***2.8.2. Destructive Leadership and Organisational Corruption***

Destructive leaders who work towards fulfilling their personal interests tend to involve themselves in activities that may harm the organisation, which could be called organisational corruption and fraud. Aguilera and Vadera (2008) explained organisational corruption as the use of power for personal gain at the expense of the organisation, as quoted by several researchers (Habib and Zurawicki, 2002; Robertson and Watson, 2004; Rodriguez et al., 2005; Theobald, 1990). Organisational corruption involves the misuse of authority to further individual interests,

whereas destructive leaders may intend to promote organisational goals, such as increased profit and long-term firm sustainability, while at the same time making a significant personal gain.

McKendall and Wagner (1997) suggested that leaders involved in corruption and fraud carry out their activities very confidently, without fear of punishment or detection. There are three types of motivation for a leader to engage in corruption (Sedikides and Brewer, 2001):

- Individualistic, in which the leader seeks to maximise his or her personal gain and reward through illegitimate activities.
- Collectivist, in which the leader aims to benefit the organisation but at the same time seeks to gain a personal benefit.
- Relational, in which the leader seeks to benefit him- or herself and a small, designated group that assists him or her in achieving the desired objectives.

Likewise, Schilling (2009) discussed different leadership types and their consequences, stating that ineffective leadership occurs when leaders do not contribute to organisational success. Leadership research has always involved analysing the behaviours of leaders and followers, as well as studying the operational environment. Most researchers have established a common ground for the basic understanding of the term negative leadership, which is morally and socially unacceptable behaviour of the line manager or individuals with authority, which comes under the category of abusive supervision.

### ***2.8.3. Traits of Destructive Leaders and Their Personal Interests***

Toor and Ogunlana (2009) restated Howell and Avolio's (1992) analysis of the negative side of leadership, which they also called derailed leadership, in which the leader becomes obsessed with power and money and adopts a narcissist and self-centred approach to handling subordinates through manipulating them, coercing them to work, and encouraging only top-down communication. Lombardo et al. (1988) agreed with Toor and Ogunlana, who highlighted the negative traits of leaders that lead to the destruction of the overall organisational culture with a strong effect on followers, causing derailment from the common goal. Inability to build rapport, low emotional intelligence levels, being un-empathetic and disrespectful towards followers, and being overly demanding are some negative traits. To further their self-fulfilling goals leading to destructive leadership, leaders can possess charisma, be power-oriented, be negative, be narcissistic, and believe in the ideology of coercion and fear to get the work done (Padilla et al., 2007). Toor and Ogunlana concluded that three aspects breed effective or ineffective leadership:

first, the personal qualities of a leader; second, the readiness/susceptibility of followers; and third, certain organisational factors, such as culture, process, goals and corporate environment.

Einarsen et al. (2007) explained the meaning of legitimate interest, further facilitating understanding of what destructive leadership is. They suggested that anything that is against the rules and policies of the organisation and anything that is immoral or does not abide by the cultural norms of the organisation is illegitimate and breeds destructive leadership. They further created a model with two specific dimensions: behaviour directed towards followers and the welfare of the organisation. This study follows the former, since the leader follows the first model of the team members or followers. Wrong and/or unethical leadership will lead to destruction for employees as well as the organisation.

#### ***2.8.4. Destructive Leadership: Types and Causes***

Other researchers have defined negative leadership differently. Schilling (2009) broke negative leadership down into eight categories, of which three are relevant to this research, being destructive in nature. The first is insincere leadership, in which leaders aim to achieve personal goals secretly, while blaming followers for mistakes and taking credit for all their achievements. The second is despotic leadership, where the leader is an authoritarian, demanding adherence to all orders and establishing strict authority over followers. Another leadership type is exploitative, where the leader coerces the followers to achieve tasks using threats, monetary rewards, and fear. Therefore, destructive leadership is a combination of insincere, despotic, and exploitative leadership styles to further the interests of the leader, using an authoritative management style, in which followers are exploited by creating fear, panic and stress, which can also be called immoral leadership.

Bass (1990b) explained that destructive leadership could fall into the passive and avoidant category, which has been intensively researched, called laissez-faire leadership. Such leaders are offered senior, strong positions but they neglect their responsibilities (Lewin et al., 1939). Some characteristics of such leaders are that they avoid decision making and stress, lack urgency for plans of action having a laid-back attitude, are not interested in goal attainment and do not engage with their subordinates to motivate them or to make them feel valued. Ashforth (1994) further explained this passive-destructive behaviour as showing a “lack of consideration” and having a “discouraging initiative”. This kind of passive and avoidant behaviour harms both employees and organisation in the long run (Frischer and Larsson, 2000; Hinkin and Schriesheim, 2008; Skogstad

et al., 2007). According to Aasland et al. (2010), destructive leadership behaviour among supervisors is very common, and the most common style is laissez-faire leadership.

Einarsen et al. (2007) explained tyrannical leadership as a style in which the leader efficiently meets all goals and objectives for the organisation's welfare, but gets work done through hostility, abusive supervision and fear, which leads followers to be dissatisfied and unmotivated. Such leaders exploit others by creating propaganda, creating distrust in the team, encouraging spying and creating a lobby. Another kind of leadership style is derailed leadership, where the leader bullies, emotionally manipulates, and insults his or her followers, while at the same time being unproductive and irresponsible towards managerial responsibilities. McCall and Lombardo (1983) gave the following causes of derailed leadership: incompetence, lack of flexibility, poor management skills and strong belief in the power of coercion and fear. This investigation focuses on poor management skills in leaders.

Schilling (2009) identified various antecedents of negative leadership, highlighting the environment as the dominant factor that generates negative leadership (71.1%) as compared to the leader, who plays a minor role (25.5%), followed by the leader's engagement with his or her environment (6%). Followers, supervisors, tasks, processes, culture, values, structures and the general environment all play important roles in generating of this kind of leadership. This is further complemented by the egoistical attitude of the leader, the leader's traits and efficacy, and poor work-related knowledge. All these characteristics create a leader with a selfish attitude, and this leads to destructive employees or followers.

Thus, it is also important to highlight other environmental antecedents of leadership change in banks, due to the high rates of mergers, acquisitions and downsizing, and the size of the banks. Schilling (2009) stated that interaction between the environment and organisational aspects, such as power distance, strict corporate cultures and pressures from the boss to facilitate the downsizing process, and personal traits, such as fear, insecurity and narcissism result in destructive leadership.

#### ***2.8.5. Supportive-Disloyal Leadership Style and Organisational Politics***

Einarsen et al. (2007) highlighted different types of destructive leadership behaviour. It is imperative to explain supportive-disloyal leadership in the context of our study. They highlighted that a leader can be constructive and destructive at the same time, depending on his or her will and intentions. Thus, the behaviour and elicited response vary within these two dimensions. A leader who bullies a subordinate can be very loyal to the legitimate interests and goals of the organisation;

similarly, a leader who is very supportive towards the subordinate can be disloyal to the organisation, giving priority to his or her own general interests. The latter is called supportive-disloyal leadership behaviour, pro-subordinate behaviour and anti-organisational behaviour. Pro-subordinate behaviour ensures the well-being of subordinates by constantly providing them with support, identifying the needs of the followers, giving them opportunities for development, giving them praise and appreciation, and fostering their job satisfaction and their emotional well-being. Such behaviour earns the leader loyalty, immense support and respect, which help the leader to achieve personal objectives through anti-organisational behaviour, such as getting involved in corruption, sabotaging the goal attainment of the organisation, building the team and taking it away to a competitor for better salary and incentives, getting involved in fraudulent activities and stealing from the organisation. In short, leaders show care and consideration to their followers, sabotaging organisational goal attainment. They also tolerate social loafing and breaches of organisational cultural norms. Wasting resources, such as time and finances, is also anti-organisational behaviour that could be categorised as theft or poor work ethics (Einarsen et al., 2007), stealing (Ditton, 1977) or other fraudulent activities. These are the most common problems for organisations in today's world (Altheide et al., 1978; Greenberg, 1997; Mars, 1994; Reese, 1992; Rosoff et al., 2002). According to Aasland et al. (2010), the second most common destructive leadership behaviour was supportive-disloyal leadership, while the first was laissez-faire leadership.

Einarsen et al. (2007) highlighted another very important point: leaders may be actively or subtly preventing goal attainment without necessarily intending to harm the organisation's value and performance. They might be working towards achieving organisational objectives, but at the same time giving preference to their values and objectives. In addition, leaders can be in favour of subordinate welfare, whether competent or non-competent, but if their leadership behaviour is harming the organisation and preventing goal attainment, they can be considered destructive. Among the privileges given to subordinates are encouraging them to take longer smoke or lunch breaks or to take extra cups of coffee, supporting them in their personal work-related issues and approving leaves when employees are most needed in the workplace.

In their qualitative studies, Birkland et al. (2008) explored 10 different countries in which anti-organisational behaviour was more common than pro-subordinate behaviour, in which the leader used personal power and position for personal objectives. This is another quality of

destructive leadership. Personal opinions or needs should not arise inside the organisation, since they will create conflicts and dissatisfaction among employees. A good leader should not pursue personal aims within the organisation.

Lipman-Blumen (2005) further highlighted the leader's grand illusions that can gain facilitation and assistance from followers. Considering the needs of followers in collaboration with the grand illusions that toxic leaders demonstrate, such leaders gain loyalty and expect long-term partnerships with the employees by placating their individual needs and fears. Hence, followers get stuck in these situations. They believe in the grand illusions and consider them to be real promises in which (1) they have to do two things in return: doing what the leader asks them to do and doing it without questioning the leader's authority, and (2) the toxic leader does not fulfil promises, not because he or she does not want to, but because he or she does not think it important to respond and abide by the implicit/explicit promises he or she made.

#### ***2.8.6. Contextual Aspects That Breed Destructive Leadership***

Lipman-Blumen (2005) further studied the four environmental aspects in which exploitative leaders and followers can interact in toxic leadership. The first is instability in the organisation in an unpredictable environment. In such situations, due to the urgency for action, a leader can rise as a lifesaver. A second, very interesting point is the perception of threat. When followers feel they are in a situation where they could be exploited and where power distance is high, the exploitative leader can easily further personal interests by creating the perception of threat. Threat increases followers' interest and collaboration with a charismatic leader. In organisations where the power is centralised and where there are long lines of hierarchy, it becomes mandatory for followers to remain and to conform, and this increases followers' dependence on the leader. Therefore, senior managers/leaders have more discretion to exercise power that they can use for or against the organisation.

Low levels of follower motivation, low team spirit, low work ethics and insecurity further strengthen destructive leadership, which spreads to the entire organisation from top to bottom. This weakens the organisational culture and makes it difficult for the organisation to respond to competition and other organisational pressures (Schilling, 2009).

Conger and Kanungo (1998) stated that leadership could result in positive or negative effects on organisations, the latter ranging from destructive bonding and dissatisfaction with the immediate supervisor to emotional and mental disturbances due to harassment from supervisors,

which leads to the fall of the organisation. Schilling (2009) supported the idea that the effects of leadership depend on the intentions of the leader, and that destructive leaders have ill intentions, in that they directly or indirectly hinder goal achievement, whether professional or personal.

Constructive leadership is where a leader furthers the legitimate interests of the organisation, while considering the well-being and career progression of the followers. Followers under constructive leaders are motivated, satisfied and encouraged to engage and participate in decision-making processes (Einarsen et al., 2007).

### ***2.8.7. Employee Engagement***

Schilling (2009) highlighted that the followers who are fearful, have weak resolve, have low work ethics or have low aptitude indirectly strengthen the influence of a bad leader over them, which hinders work effectiveness. Similarly, followers have to bear greater consequences of the abusive environment, namely poor performance, poor commitment, lower motivation level, and work dissatisfaction. Felfe and Schyns (2009) elaborated on Turner's (2005) argument regarding self-categorisation theory, which states that followers identify themselves with the group whose ideology and beliefs they share. However, that does not mean that it is easy for them to reach to a unanimous decision. This is where the leader's role comes in as the leader facilitates the decision-making process by being a mediator and an influencer and solves the disagreement. Giessner and van Knippenberg (2008) reiterated that leaders who could resolve conflicts and neutralise tense situations were more popular during turbulent situations, and they gained a strong foothold.

Felfe and Schyns (2009) further identified that a leader and follower relationship is interactional, and that the leader gains acceptance towards how he or she responds and meets the followers needs; therefore, the better the leader meets the followers' expectations, the greater the acceptance of the leader. They also clearly highlighted that leadership can only be evaluated according to the ratings and perceptions of followers, and that no specific tool exists to measure the leadership and the quality of the process.

Bass (1990a) highlighted that some leaders engage with followers only when there is a need for attention; otherwise, they ignore them, and they are not concerned with the process flow. This is termed passive management by exception. Few other leaders try to avoid any participation in decision making or engaging followers, which leads to the destruction of the leadership culture within the organisation. They avoid work, and they prefer to stay separate from work, perhaps due

to laziness, poor managerial skills or no interest in the legitimate interests of the organisation. This leadership is called laissez-faire leadership (Bass, 1990a). Hence, it is considered the most destructive form of leadership. This study determines destructive leadership influences in the followers of an organisation. The laissez-fair leadership style explains poor and inefficient management, a lack of skills or a lack of interest towards the firm.

### **2.8.8. Followers 'Personalities and Needs Identification**

Lipman-Blumen (2005) discussed the allure of toxic leaders, explaining what a toxic leader is: a member of the organisation who inflicts harm on individuals, organisations, societies and even nations through dysfunctional capabilities and harmful intentions. Lipman-Blumen further specified that a follower is one who strengthens the leader's destructive behaviour. The first reason stated is the internal condition of the followers; the psychological needs of the followers create strong yearnings for a toxic leader, and this relates to Maslow's hierarchy of needs. In the revised concept of his hierarchy, Maslow identified the aesthetic needs of employees below self-actualisation: this need is related to beauty, creativity and expressing oneself in pleasing ways. People work on achieving this need when their earlier needs are met. Beyond self-actualisation is the need for transcendence beyond self-actualisation: this is the need for further growth that is never satisfied.

The most important psychological needs are the need for authority figures/bosses to replace parents or guardians, for membership within the professional community and for craving to be at the centre of the action. Another very strong need is security, as followers fear being powerless to challenge difficult leaders and they are unwilling to confront them. This is what makes them seek the consent of their leaders to fulfil their psychological yearnings. Apart from this, followers have physiological needs to pay their bills and to enjoy the benefits of directly working under their leaders.

The second set of needs was further explained in Lipman-Blumen's (2005) study: to be able to serve a meaningful purpose. This need is further reinforced by the line manager openly stating his or her expectations from the employees, in return for looking good for the leader, implicitly seeking security and affiliation. This is what destructive/toxic leaders count on, and it becomes a relief for their followers in return for which they give loyalty and support to their leaders.

There is another need of followers, the need for certainty. Leaders who make promises for a controlled, predictable environment gain the trust and comfort of their followers, thereby creating loyalty. Next is the psychosocial need of the followers, which is greatly affected by cultural and societal norms that provide the definition of success, and they seek to join social groups that are powerful, stronger and competent to feel secure. Finally, Lipman-Blumen (2005) discussed the need to be open to new domains, successes and opportunities. Toxic leaders offer hope to individual employees, seducing them with promotional opportunities and including them in their personal/organisational visions.

Thoroughgood et al. (2011) shed further light on follower types and their reactions to the destructive leadership style, which few researchers have considered. Various researchers have attempted to understand the courageous followership of a follower who resists the pressures of a destructive leader (Chaleff, 1995). Other researchers have highlighted the depth and seriousness of harmful consent by the follower (Bratton et al., 2004) and unquestioned conformity (Hogg, 2004). Uhl-Bien and Carsten (2007) suggested that long lines of hierarchy, high power distance, obedience to authority and bigger grade gaps strengthen the conformance of the followers, and that followers are more likely to participate in the destructive process willingly or unwillingly by staying passive about the problem. There are also followers who succumb to destructive leadership behaviour and who prefer to be silent, not reporting any unethical practices of destructive leaders. These followers usually fear losing their jobs and power, preferring obedience instead of constructively confronting the leader (Carsten et al., 2010).

According to Bardes and Piccolo (2010), such passivity in followers makes destructive leadership behaviour more prevalent. This particular kind of follower has low self-esteem, low self-belief and self-efficacy, and more problem-solving skills (Einarsen et al., 1994); such followers tend to be highly introverted and to lack assertive skills.

On the other hand, other followers are confident, are self-aware and have sound ethical knowledge and values, which they use to defy and question the leader about any unethical, selfish practices. They will voice concerns (whistleblowing) and assertively deal with the problem. It is imperative to create more followers who know ethical followership, because followers either resist or support destructive leadership practices before the effect spreads in the organisation. Such people are exemplary followers (Chaleff, 2003; Kelley, 2004; Potter et al., 2001; Riggio et al., 2008; Uhl-Bien and Pillai, 2007).

Therefore, it is imperative to study follower behaviour to restrict the devastating effects of destructive leadership behaviour on the organisational culture. Kellerman (2004) and Thody (2003) further classified followers into bystanders, who fail to question the destructive, unethical practices of the leader, and acolytes, who participate in the destructive practices of the leader. Padilla et al. (2007) later categorised such followers under two types: colluders and conformers. Based on the understanding that leaders alone cannot achieve the desirable results, it is imperative to explore different types of susceptible followers and the support they provide in making the resources available to implement an action plan and to execute a vision (Kellerman, 2004; Lipman-Blumen, 2005; Padilla et al., 2007). Therefore, this completely depends on the support or interest of the followers (Barnard, 1938; DeRue and Ashford, 2010), and their support or interest is backed by their psychological need status.

Thoroughgood et al. (2011) created a taxonomy of different follower types and their needs, and they divided conformers and colluders (see Padilla et al., 2007) into five categories. Conformers can be lost souls, authoritarians or bystanders. Lost souls are said to have no focus and low self-concepts; therefore, they are vulnerable to a leader's behaviour and demands. They need a sense of belonging (Fromm, 1941; Howell and Shamir, 2005; Wright and Wright, 1982), guidance and moral support; hence, they look up to the (perceived) charismatic leader (Freemesser and Kaplan, 1976; Galanter, 1980, 1982; Whitsett, 1992). Their unmet needs are very high, and their personal lives are disturbed. The greater the degree of unmet needs among followers, the greater their level of compliance and obedience to the leader. Authoritarians have rigid attitudes, and they comply with leaders unconditionally (Altemeyer, 1998; Blass, 1999) because of their top positions within the hierarchy. Such followers conform, as they see no option but to comply with legitimate power figures. Bystanders are passive, and they usually comply with destructive leadership out of fear. They support the leader out of coercion, and they do not personally support other followers (Ehrenreich and Cole, 2005). They constantly monitor themselves and their actions, are introverted, and lack the courage to question the leader.

Colluders can be acolytes or opportunists. Opportunists are followers who form a team with their leaders to take advantage of the personal gain and benefits in terms of money, career progression/promotion or to gain political influence. Barbuto (2000) emphasised the exchange triggers that cause opportunists to be more susceptible to destructive leadership decisions, as the followers expect rewards in return for their compliance (Kehman, 1958). Opportunists are

individuals who are greedy and who have low self-esteem and high personal ambition. Acolytes are loyal to leaders because they share similar values (Lipman-Blumen, 2005). They have a low self-concept; therefore, they express themselves through a sense of belonging with the leader, unlike opportunists, who express their loyalty towards the leader in return for rewards. Burns (1988) and Shamir et al. (1993) concluded that destructive leaders can have transformative effects on acolytes, and both share the same vision about the future. Acolytes can later become destructive leaders themselves. Thoroughgood et al. (2011) stated that the greater the motivation of acolytes to comply with the leader and the lower the resistance, the greater the follower's loyalty to the leader.

Padilla et al. (2007) researched destructive leadership in the context of followers and the organisation. Very few researchers have covered the role of followers in the leadership process. Some researchers have emphasised the need for followers to conform to and look up to their leaders for direction and counselling (Barnard, 1938), giving rise to the question of why some followers are unable to resist the pressures of dominating and unethical leaders (Graen and Uhl-Bien, 1995). After some years, Kellerman (2004) and Lipman-Blumen (2005) answered this question, stating that all followers, like all individuals, need security, conforming to group norms that make them feel safe and powerful at the same time to enable them to make predictions and to mitigate risks. Baharody and Stoneman (1985) stated that followers tend to copy the behaviour of high-status leaders, and they are naturally inclined to follow them. Further research has explored the personality differences between followers. Some followers allow poor leadership to take place, such as people who lack a clearly defined vision and focus and who feel vulnerable (Weierter, 1997). Higgins (1997) considered conformers as those who follow the norms set by destructive leaders out of fear and who tend to focus on the risks of not conforming. They do conform and obey orders, but unwillingly.

A destructive leader sabotages the interests and well-being of followers solely to pursue his or her interests. Leaders make mistakes, and certain actions are not deliberate. However, when a leader makes repetitive attempts to undermine followers' interests, directly or indirectly, that behaviour is destructive (Einarsen et al., 2007), as employees become victims of abusive supervision and unfair treatment. This kind of behaviour leads to lower motivation levels, increased job burn-out and unwillingness to put forth extra effort, and it results in reduced morale and performance.

Further, Weierter (1997) and Kellerman (2004) explained the other extreme of follower personality. These followers share the leader's values and willingly stand by the leader to gain personal benefits through association with the bad leader, such as early finishes at work, promotions, leniency etc. Higgins (1997) termed these followers colluders. Therefore, we can conclude that both kinds of followers abide by and conform to the bad leaders' decisions and ideas, but their intentions are different. Conformers cooperate out of fear and lack of self-belief, whereas colluders follow orders willingly for personal advantages. Followers of all kinds nurture bad leadership: some out of the fear of consequences and others to further their personal interests.

### ***2.8.9. Followership of a Destructive Leader***

Will (2012) was the first author to discuss a few key principles explaining the relationship between a leader and a follower. He discussed areas that set the foundation of that relationship. Leadership energy is intrinsic, and it comes from the inside. Self-confidence and esteem help to achieve the purpose of leadership. Second, followers choose the leader on the basis of their emotional, psychological, spiritual or non-spiritual and intellectual connection, which determines the loyalty of the follower to the leader in the long term. Third, he reviewed collective leadership, which is the desire to follow and the desire to be followed. If any aspect is missing, healthy leadership will not take place. Fourth, leadership involves a common objective. This is where the leader sets personal objectives and subtly directs the followers to act. Usually, followers who aspire to be like their leaders feel connected to them on various grounds, they extend their support to their leaders, and they stay loyal and become colluders. They extend their cooperation and support to further the vision of their leader and to receive the personal benefits and privileges associated with it. Others who do not approve of their leader's character and values either withdraw from work or succumb to the leader's demands to meet their unmet needs. Will described the general principles of the relationship between a leader and follower, whereas Schilings (2014) quoted various research findings in her article "Bad Boss?" pointing out the essentials for leadership to take place. She highlighted that toxic leaders are self-absorbed individuals who's bullying to intimidate their subordinates. They charm their subordinates through emotional manipulation and seduction targeting individual needs, and they are controlling to the point where they get involved in different anti-subordinate behaviours.

By contrast, Padilla et al. (2007) highlighted that toxic leadership can exist without the leader, the support and submission of followers, or the environment that supports this. The key

characteristics of an organisation that can give rise to destructive leadership are lack of compliance, perceived threat, instability in the organisation and organisational values that synchronise with leaders' toxic values. The followers are another major component of the toxic triangle, as their susceptibility and inability to stand against oppression leads them into the destructive leadership trap. Those who cannot stand against the destructive leader join hands with the leader by extending cooperation to the leader to be in his or her good graces for their own personal interests, meeting their unmet desires for money, fame, power and privilege.

Padilla et al. (2007) explained a few reasons for followers promoting the cause of destructive leadership. Unmet basic needs of food and safety, as specified in Maslow's hierarchy, and the need to belong to a community were the most important reasons they identified. Second, followers who have poor self-esteem, have low self-efficacy and believe they have lesser control over internal and external factors tend to support destructive leaders. They are influenced or impressed by the charisma and confidence of bad leaders and feel like giving into the pressure. Further, Padilla et al. (2007) highlighted that followers with low moral reasoning, low mental maturity and lack of will and faith tend to adopt the behavioural patterns of destructive leaders, which in turn makes them feel competent and good about themselves. The most ambitious followers will assist exploitative leaders in pursuing illegitimate personal interests over legitimate organisational interests.

Other observations show that the higher the value congruency of leaders and followers, the stronger the bonds, resulting in greater job satisfaction and commitment for followers (Jung and Avolio, 2000). Moreover, it was clear that greedy, selfish and overly ambitious followers tend to be inspired by destructive leaders, and later in their careers, they adopt the same approaches, becoming destructive leaders.

#### **2.8.10. Empirical Studies**

Aubrey (2012) attempted to determine the effects of toxic leadership. Several research studies have focused on toxic leadership, particularly the symptoms of toxicity (individual traits and characteristics), but not the disease (outcomes, culture and climate). Traits and characteristics are helpful in identifying toxic leaders, but culture predicts outcomes and behaviours. The culture of the organisation can create an effect on the behaviour of leaders, and so they promote toxic behaviour. Aubrey used a classification-oriented approach to analyse the effect of toxic leadership, particularly on the elements of organisational culture, such as behaviours, values and norms.

Aubrey concluded that moderating environmental effects migrate or increase the organisation's vulnerability to damage caused by toxic leaders.

Padilla et al. (2007) conducted a study on the toxic triangle (i.e., conducive environments, susceptible followers and destructive leaders). Destructive leadership involves negative consequences that result from the effects of conducive environments, susceptible followers and destructive leaders. Padilla et al. discussed destructive leadership and identified negative outcomes for individuals and organisations that were affected by them and linked by them. They outlined the toxic triangle (i.e., the characteristics of followers, leaders and environmental contexts that connect with destructive leadership). They illustrated the dynamics of the framework for destructive leadership, using Fidel Castro's career as the dictator of Cuba. Padilla et al. concluded that destructive leadership is a practical problem in organisations. The authors suggested a framework in which three strategies, leader selection and development, organisational improvement and follower empowerment and strengthening, could reduce the probability of toxic leadership.

Crellin (2013) studied destructive leadership to identify followers' attributes and how they affect destruction. Several researchers have stated that destructive leadership generates negative follower attitudes. Crellin's study explored social conflict, justice and social influence to redefine the attitudes of negative followers on the effect of destructive leadership. Destructive leadership begins with perceived injustice to followers. Destructive leaders then influence the selection process, newly elected leaders and the assignment of legitimacy, which may result in difficulties in establishing control. Crellin suggested that destructive leadership emerges as an attempt both to retaliate and to regain control.

Burchard (2011) proposed a model for ethical dissonance as a way to respond to destructive leadership. The proposed model helps to illustrate the person and organisation exchange cycles that occur during distinct ethical person-organisation fit scenarios, namely high individual ethics and high organisational ethics, low individual ethics and low organisational ethics, high individual ethics and low organisational ethics, and low individual ethics and high organisational ethics. Burchard's model helped to examine the ethical decision-making process in the organisation. Burchard tested the model using a combination of qualitative and quantitative measures.

Schyns and Schilling (2013) studied the effects of bad leaders. They conducted a meta-analysis of destructive leadership based on Aristotle's theory of leadership. Schyns and Schilling

identified a strong relationship between attitudes towards the leader and the leader's destructive behaviour. A leader's destructive behaviour directly correlates with negative attitudes, which make leaders show their negative attitudes towards their subordinates. The ambitions of destructive leaders can drive them to excel, but, at the same time, ambition can become a more dangerous attribute if it negatively influences subordinates. The effectiveness of leaders is always the result of their relationships or interactions with others and their ability to envisage the future, motivate others, communicate the vision and create preconditions that help realise that vision.

Mumford et al. (2007) conducted a study on the sources of leaders' violence to identify destructive behaviours of leaders. They broadly classified the destructive behaviour of leaders as destructive based on their reality distortion and their selective interpretation of information. This broad dimension identified that the projection of negative intentions plays a major role in the destructive behaviour of leaders.

Einarsen et al. (2007) proposed a conceptual framework for destructive leadership. Destructive leadership is a repeated and systematic behaviour by the leader that has the capacity to violate the legitimate interests of the firm by obstructing and/or undermining organisational resources, goals, tasks and the motivation, job satisfaction or well-being of the employees. Einarsen et al. identified three categories of destructive leadership: supportive-disloyal, derailed and tyrannical leadership. Their proposed model provides a link between leadership and research on counterproductive behaviour, bullying and aggression at work. Apart from these, their model contributes to the nuanced concept of destructive leadership and shows that destructive leadership behaviours can also have constructive elements.

Schilling (2009) investigated the ineffectiveness of leaders that leads to destruction. Schilling explored managers' conceptions of negative leadership. Schilling collected samples from 42 managers using semi-structured interviews to discover their conceptions of negative leadership, its consequences and its antecedents. The results of the study identified eight behavioural categories that lead to negative leadership, namely exploitative, restrictive, insincere, despotic, failed, actively avoiding leadership, passively avoiding leadership, and laissez-faire. Negative leadership is usually attributable to the environment of the leader, particularly followers, organisational processes, resources, structures and the immediate working field. Schilling's analysis of the relationship between leadership categories has two dimensions: passive versus active behaviour and human versus task-oriented behaviour.

Sheard et al. (2013) studied destructive behaviours and leadership. Destructive leadership behaviour can generate damage to organisations, and it is therefore important to remember that the individual is entrusted to lead. It is very difficult to identify who will engage in destructive behaviour; therefore, Sheard et al. intended to identify why leaders demonstrate unattractive behaviours. They highlighted four major drivers for destructive methods of leadership. They compared two dimensions: the adequacy of the leader's leadership capabilities and the leader's leadership attitude towards the organisation. The proposed models provide tactical methods for managers, which protects them against destructive behaviour and helps the leaders or managers to lessen the worst aspects of destructive behaviour among themselves and colleagues.

Thus, there should be a negative relationship between destructive leaders and their followers. In addition, the effects of the moderating environment should mitigate or increase the organisation's vulnerability to damage from toxic leaders.

## ***2.9. Non-compliance with Corporate Governance and Promoting Destructive Leadership***

### ***2.9.1. Destructive Leadership and its Link with the Fraud Triangle***

There are various pieces of evidence that link destructive leadership to the fraud triangle (Huffman, 2011; Lu et al., 2012). The self-centeredness of destructive leaders and their leadership approach, which is characterised by unethical practices such as coercion, intimidation and bullying, creates an environment for the various features of fraud triangle, such as pressure, opportunity and rationalisation of fraud, to manifest (Perriet al., 2014;C.O. Albrecht et al., 2015).Lu et al. (2012) argued that destructive leaders are more likely to be involved in fraud such as corruption. According to these researchers, the self-serving nature of destructive leaders leads them to cheat, receive kickbacks and embezzle to satisfy their selfish needs.

The Kabul Bank Scandal provides a good example of the link between destructive leadership and the fraud triangle (Huffman, 2011). The Kabul Bank Scandal refers to the loss of \$300 million by the bank to corrupt bank leaders with the help of the political elite and influential people in the country. Huffman (2011) depicted the leaders of the Kabul Bank, once the largest privately owned Bank in Afghanistan, as destructive. They are shown as motivated by the need to enrich themselves at the expense of shareholders. It is evident from the description of how the scandal played out that the leaders first experienced pressure to commit fraud. The pressure on the bank managers, the first step in the fraud triangle, is evident through the fact that the bank leaders

and their colluders were faced with the problem of financing their business ventures, family members, luxurious living and upcoming presidential campaigns (Huffman, 2011).

The bank managers also developed an opportunity to commit fraud, the second step in the fraud triangle, by the creation of fake companies and duplicate books (Huffman, 2011). Using their positions in the bank, the top two bank leaders developed fake companies and provided loans to these companies without adhering to procedural guidelines. These companies were only used to hide the stolen money and to protect the actual perpetrators of the fraud from being identified. Further, the bank managers facilitated the transfer of the money to a money transfer business (Shaheen Exchange), a firm owned by Fernood, one of the bank managers. The money transfer business firm was used to channel the cash to the colluders of the fraud undetected. As already indicated, the managers also facilitated the development of the two books, a fake and a real book. The real book was hidden, and the fake book was used to mislead the auditors. The bank leaders and their colluders also used their political connections as protection against any prosecution and possible government regulatory scrutiny. Through political ties, the relevant investigative agencies such as the central bank examiners and the international banking advisor were threatened and intimidated. Finally, the description of the scandal by Huffman (2011) shows how the destructive leaders rationalised the crime by blaming it on others and exonerating themselves from the fraud. The fraud was blamed on lower ranking Kabul Bank staff. The auditors and the international banking advisors were also blamed for failing to prevent the fraud.

According to Perriet al., (2014), destructive leadership is linked to the fraud triangle through the aspect of weakness exploitation. Destructive leaders who seek to advance their selfish interests resort to exploiting weak controls within their organisations, where they are difficult to detect (Perriet al., 2014). This is also evident in the Kabul Bank saga, where the managers exploited the weak controls in the development of the fake book and by unilaterally taking the decision to give loans to the fictitious companies (Perriet al., 2014). Destructive leaders often use the trust others have in them to defraud them (Perriet al., 2014). They also promote fraud in their organisations by encouraging the breaking of rules, unethical behaviours and not respecting social boundaries (Perriet al., 2014).

Destructive leadership is also linked to the fraud triangle through the fact that it creates an environment for the different individuals/entities to collude to commit fraud (C.O. Albrecht et al., 2015). The collusion to commit fraud is facilitated by social networking and the normalisation of

the deviant behaviours (Earle et al., 2010). Destructive leaders can also influence their followers to commit fraud by influencing how the followers perceive pressure, opportunity and rationalisation of fraud.

According to C.O. Albrecht et al. (2015), fraud is usually linked to the use and abuse of power by self-serving individuals. Destructive leaders can use their social power to orchestrate and influence the fraudulent acts by controlling the resources and outcomes. Thus, destructive leaders who have unchecked power tend to feel in control and feel unthreatened in committing fraud. C.O. Albrecht et al. also indicated that such leaders have increased perceptions of opportunity, since the power such leaders wield makes them discount any possible constraints. They also argued that destructive leaders who hold excessive power tend to be highly susceptible to moral hypocrisy. Such leaders feel a sense of entitlement even in situations where their actions result in harm to others. This moral hypocrisy among powerful destructive leaders enables them to rationalise their fraudulent acts (C.O. Albrecht et al., 2015).

### ***2.9.2. The Link Between Destructive Leadership and the Fraud Triangle***

Destructive leadership is the behaviour of leaders, supervisors or managers who are intent on subverting the legitimate interests of the firm for which they work for selfish or fraudulent ends, in the course of which the well-being of the firm and its employees are placed in peril (Boyle et al., 2015). Fraudulent leadership is an attribute of a toxic leader; the fraud triangle, on the other hand, is a paradigm that describes the conditions that, when present, will signal the likelihood for fraud to take place. Recognising that destructive leadership is the likely antecedent and that fraudulent activity is the consequent, it, therefore, is worthwhile to examine how fraudulent leadership aligns with the elements of the fraud triangle to give rise to fraud (Webster, 2015).

It is opportune to illustrate the workings of the fraud triangle in the Pakistani banking industry to examine the specific case of a bank official exemplifying the attributes of destructive leadership in defrauding the bank, its investors, its depositors, and the public in general. One such case is that reported by Rana (2016) about a fraud perpetrated by an assistant vice president of the NBP. In connivance with four senior officers of another organisation, the bank official was arrested by the Federal Investigation Agency on charges of irregularly withdrawing billions of rupees from a number of bank accounts.

The ongoing swindle was discovered after a complaint was lodged that the officer had irregularly withdrawn Rs 1.5 billion from the accounts of the Abandoned Properties Organisation

(APO). The bank, to its credit, itself launched the complaint against its own assistant vice-president. Based on initial investigations, it is possible that the full amount of the fraud may rise to more than Rs 6 billion, since the APO has invested around Rs 25 Billion in a variety of government issues, most through NBP and most handled by the assistant vice-president. The other four officials who connived with the NBP executive were likewise executives of the APO, the very company from whose accounts they were stealing. The NBP official prepared fake Pakistani Investment Bonds, and then encashed them against the investments made by the APO.

The APO is a juridical entity created by the government of Pakistan in 1971 after the war that led to the formation of Bangladesh, to manage the assets of the former citizens of East Pakistan. These consisted of the movable and immovable properties belonging to the people, in total currently amounting to more than Rs 50 billion, half of which is in cash. The APO operates under the mandate of the Abandoned Properties (Taking Over and Management) Act, 1975.

This is the responsibility of the Government of Pakistan, which manages APO through a board of trustees assigned for the purpose through the NBP. As a consequence, the law mandates that APO can only invest in government-approved securities—in this case, Pakistani Investment Bonds. The NBP official had used a fake signature of the APO officers to withdraw the money; as a result, she was charged with offences against the Anti-Money Laundering Act, Anti-Corruption Act and Pakistan Penal Code Act of 1876, and of criminal breach of trust. The other officials involved in the crime included two deputy administrators of the APO.

The investigation is currently ongoing, but there is a possibility that similar irregular transactions might also have occurred in other organisations that have invested in government securities such as the Pakistani Investment Bonds through the NBP. This is not the only scam that has surfaced recently; there were two earlier episodes involving different individuals but the same bank. One involves a Mardan region officer of the bank who committed fraud in the PM Youth Business Loan Scheme. In another case, several NBP officials swindled pension funds in the Muzaffargarh branch of the NBP (Rana, 2016).

From the foregoing case study of the NBP official, it is evident that the elements of the fraud triangle were enabled and that they led to the series of acts constituting fraud and malpractice.

- Opportunity—There is no doubt that lax controls at the NBP fell short of what is normally expected in other companies in the banking industry. The fact that the NBP is a government bank makes it all the more disturbing, because government officials, auditors and

regulators are traditionally presumed to be more stringent than private officials, due to what should be a disinterest in the profit motive. This merely heightens the suspicion that there may be more involved in the scam, possibly those very executives who have oversight of these officers; for instance, the assistant vice-president was emboldened to commit a series of fraudulent withdrawals repeatedly over a long period, possibly with the collaboration of people both below and above her in the organisation. The same may be said of the four APO officers in their organisation. A preliminary investigation suggested that “Increasing instances of frauds suggest that the bank’s internal controls have weakened. It also shows gross negligence of the compliance, audit and operations departments of the NBP that are unable to detect these cases at the initial stages” (Rana, 2016).

- Rationalisation/Attitude—An important psychological aspect of the fraud triangle is the offender’s attitude or reasoning, which implies that the individuals involved are of such character that they convince themselves that what they are doing is consistent with some meritorious value. Thus, they rationalise or justify their actions. The preliminary investigation quoted sources within the NBP as saying: “The contractual appointments at the key posts are said to be one of the reasons behind weakening internal controls. Out of 20 key posts, as many as 13 are occupied by contractual employees. The head of retail banking, human resource management, financial control division, treasury and capital market group, audit and inspection groups are serving on contracts” (Rana, 2016). The choice of contractual employees to occupy sensitive positions and discharge critical functions is never a good idea because contractual workers are not as committed to the values of the organisation and the proper discharge of their duties as regular employees or career officials. They have not grown with the organisation, and they have not developed a sense of loyalty to their employer, which in this case is the Pakistani government and the public it represents. In this case, it is not so much that the contractual employees in sensitive positions rationalise what they are doing by aligning them with their values, but rather that there is a loose assimilation of the values of true public service, to the point that these individuals have no qualms about betraying the public’s trust and violating their own ethical and legal obligations.
- Pressure/Incentive—For the executives at the top, the motivation is not so much in the form of pressure as it is an incentive to enrich themselves. One of the most common reasons why

government officials are motivated to engage in corrupt practices is that they operate under the impression that they have an impersonal employer—i.e., an invisible employer, which is the state, in whose interest the government operates. This is aggravated by workers who are employed on a contractual basis, because they know they are there for a temporary period, and it is likely that the incentive to dip into the deep coffers of the government without apparently hurting anybody (since the employer is an institution, not a person) provides too much of a motivation. Subordinates who are complicit may feel the pressure to abstain from blowing the whistle on a wayward superior. This aggravates the situation, particularly in a highly personalised culture such as Pakistan.

### ***2.9.3. Destructive Leadership Causes Followers to be Unmotivated***

Along with destructive goals, destructive leadership causes basic and primary damage to the employees working under destructive leadership. The leaders when use this approach, they Obviously harm people under them which in turn affect their physical and psychological health, career, motivation. (Hoobler and Brass, 2006; Tepper, 2000; Tepper et al., 2007). The literature on job performance indicates that counterproductive work behaviours are to be distinguished from poor task performance (Murphy, 1989; Sackett, 2002). Counterproductive work behaviours and poor task performance are similar, as both behaviours can hinder the production process, cause damage and cause unsafe behaviours. They differ in their nature, as poor task performance can be a result of low motivation (Campbell et al., 1993). When the destructive leadership style is followed it leaves followers unmotivated, and this is an unintentional harm.

### ***2.9.4. Destructive Leadership Impacts Loyalty with the Organisation***

The research provides several examples that followers who try to express their discontentment with leaders' toxic plans and goals are at a higher risk of getting affected at workplace and their careers (Coleman, 1987; Kets de Vries, 1989). The research mentions that when leaders influence their followers to pursue destructive goals, it usually brings harm to the organisation results (Mayes and Allen, 1977; Witt, 2003). In the other scenarios, followers may not be conscious of the fact that the leader without highlighting is making them pursue destructive goals and suffer no harm from those goal pursuits or even ensure benefit from pursuing destructive goals. For instance, followers who are loyal to leaders and who pursue their destructive goals vigorously may receive material rewards or favour (Anand et al., 2005). So, it easy to predict that destructive leadership has a high impact on loyalty to the organisation.

### ***2.9.5. Destructive Leadership Leads to Unethical Behaviour***

The other form is that there might be cases where leaders who influence their followers to pursue destructive goals can affect the company with unethical or toxic behaviours and activities, thus placing the organisation at risk (Kaye et al., 2007). This adaptation of unethical goals leads to unethical behaviour under the influence of destructive leadership. The effect of destructive goals is not yet clear. Therefore, on one side, the achievement of such objectives may harm the followers. For example, leaders who pursue goals that conflict with the organisation's interests can create ideological or role clash (Gray and Ariss, 1985; Yukl, 1999) or a dysfunctional political environment (Drory, 1993), which are stressful and therefore harmful to followers. Research highlights that organisational reward systems that emphasise successful performance of the tasks and objectives over pertinent ethical considerations have links to managers' decisions to pay kickbacks (Hegarty and Sims, 1978). Also, unethical behaviour among managers was shown to increase when competition for monetary rewards was promoted (Hegarty and Sims, 1978).

### ***2.9.6. Destructive Leadership Causes Organisational Corruption Through Followers***

Some people may view toxic leadership as good and follow willingly. These employees most probably will be trained to become the next generation of toxic leaders. The effects of destructive leadership are far-reaching, and the leaders use their followers for corruption. Those who accept the concept of destructive leadership and follow it are willingly involved in the organisational corruption. On the other hand, those who argue about the set-up of destructive leadership are often forced to get involved in it. In a meta-analysis examining the effects of destructive leaders on employees, researchers found large positive correlations between destructive leadership and negative attitudes towards the leader, turnover intention, resistance towards the leader, low individual performance and counterproductive work behaviour (Schyns and Schilling, 2013). As there is no prediction of the measure of harm for the employees of the organisation, the followers of destructive leadership are often involved in organisational corruption, because the ultimate harm is borne by the organisation itself.

### ***2.9.7. Non-Compliance with Corporate Governance Promotes Destructive Leadership***

The impact of destructive leadership has extended beyond the leader's approach; contemporary research has been more focused on identifying the root cause of propagating and promotion of destructive leadership. Recent studies have suggested that employees are significantly affected by the behaviour of leaders and they may end up perpetuating that behaviour

themselves (Mawritz et al., 2012; Mawritz et al., 2014). The culture of the organisation comprises the attitudes, beliefs and values of a group. The organisational culture may differ with country and region, and hence it may have multiple dimensions (Hofstede et al., 1990). Adherence to the culture and non-compliance with corporate governance is the main cause of perpetuating destructive leadership.

#### ***2.9.8. Destructive Leadership Has Positive Links with Fraud***

Destructive leadership is the behaviour in which the supervisor or leader violates the legitimate interest of the company by undermining its tasks, goals, resource, effectiveness, well-being and motivation. It has been noted that destructive leadership is positively related to fraud, because the leader does not focus on the achievement of organisational goals; instead, he or she emphasises personal interest. Such a leader does not think about the benefit of the business, and so he or she does not make effective use of available resources. Apart from this, such leaders lack concern for others and the organisation, due to which there are negative effects in the form of fraud. They do not conduct operations in a manner that results in better performance, but they manipulate the elements for their personal benefit.

#### ***2.9.9. Destructive/Toxic Leadership Affects Followers Non-Adherence to Corporate Governance***

Destructive leadership, as defined by Padilla et al. (2007), is characterised by control and coercion, and it often results in outcomes that are more concentrated at the negative end of the spectrum. Toxic leadership is also characterised by selfishness on the part of leaders who prioritise their goals and aspirations above the needs of the larger social organisation (Padilla et al., 2007). Organisations that have destructive leadership are often characterised by followers who lack the power to resist destructive leaders and who are forced to follow them. It is important to note that the negative organisational outcomes that are associated with destructive leaders such as poor adherence to corporate governance occur in concert with susceptible followers (Padilla et al., 2007).

Susceptible followers in the context of destructive leadership are defined as those who are unable or unwilling to resist the toxic leaders. According to Padilla et al. (2007), people have the innate tendency to conform to the group norms and therefore in organisations, employees are likely to be influenced by the destructive leaders into non-compliance with corporate governance. However, it is important to note that the extent of influence of the destructive leadership on the followers depends upon the characteristics of the followers. Followers who lack an adequate definition of

the self-concept and those who share the values of their destructive leaders are likely to follow them. Followers who have unmet basic needs and who view destructive leaders as their only hope are also likely to follow them. Followers with low self-esteem and low self-efficacy are also more likely to conform to the dictates of the destructive leaders (Padilla et al., 2007). However, one should not dismiss the fact that the followers can conform to the ideas of destructive leaders because their ambitions, values and beliefs are aligned. Padilla et al. (2007) used the case of Fidel Castro, the former destructive Cuban president, to demonstrate how destructive leaders force their followers to conform to their philosophies. They identified various groups of Cuban followers who conformed to Castro's leadership for different reasons. Colluders who helped Castro to lead followed him because of their potential to profit from him. Uneducated and poor Cubans followed Castro because of the promise of having their needs met. A third group conformed due to fear.

There are various attributes of destructive leaders that enable them to force susceptible followers to conform to their ideas. One such attribute is charisma. The charismatic nature of destructive leaders enables them to abuse their authority for selfish gains (Padilla et al., 2007). Destructive charismatic leaders often do not have regard for organisational ethics such as corporate governance and they often use control and coercion to censure opposing views. Narcissism is the other trait of destructive leaders that enables them to force their followers to adhere to their views. Narcissistic destructive leaders are autocratic and often abuse their power for self-gain (Padilla et al., 2007).

Destructive leaders can influence their followers not to comply with corporate governance by being supportive of them while being disloyal to the organisation (Einarsen et al., 2007). The supportive-disloyal leaders Einarsen et al. (2007) described undermined task and goal attainment while prioritising the welfare of their followers. Such destructive leaders promote loafing or misconduct on the part of the followers at the expense of organisational needs. According to Einarsen et al., destructive leaders can influence the adherence to corporate governance of followers by sabotaging the effective internal control systems, thereby creating an opportunity for the followers to disregard the corporate governance requirements. Einarsen et al. further noted that derailment tactics by destructive leaders, such as intentional failure to build teams, delegate tasks and responsibilities, and displays of abrasiveness, intimidation and arrogance also force susceptible followers to abandon corporate governance.

Schilling (2009) also reported the effect of destructive leadership on followers. Following the analysis of data obtained from 42 managers, Schilling noted that destructive leadership might result in negative behaviour and performance among the followers. Followers often feel demotivated and dissatisfied with their work, resulting in poor work ethics, lack of commitment to the organisational goals and failure to take responsibility and to be accountable. Schilling also reported that characteristics of destructive leaders, such as bullying, might force followers to avoid leaders, cut communication and desist from being whistle-blowers because of fear of the possible repercussions. Carsten et al. (2010) argued that followers choose to be loyal to unethical leaders due to fear of their abusive and dangerous nature. By being passive and loyal, followers contribute to non-adherence to corporate governance.

Lu et al. (2012), in their assessment of destructive leadership in the Chinese context, noted that such leaders promote non-adherence to corporate governance among their followers by eroding professional morality. They noted that destructive leaders promote self-interest and autocracy, which violate social and moral principles and professional ethics, leading to non-adherence to corporate governance. Erickson et al. (2015) also identified how destructive leadership affects followers. One effect is the development of negative attitudes towards leadership, which may result in the followers revolting against the leader. The followers who revolt may also sabotage the organisation in a bid to force the leader out. The anger, irritation or bitterness the followers may feel due to the actions of the destructive leader can lead to psychological stress and poor job performance (Erickson et al., 2015). Poor job performance can include the failure of the followers to be responsible in the workplace and to make honest and fair decisions. Their irresponsible behaviour can also lead to a lack of accountability (Erickson et al., 2015). A culture of fear, which is common among organisations led by destructive leaders can lead to a decline in work cohesion among followers. Lack of work cohesion impedes the collaboration between the different departments in the workplace and collective efforts towards the implementation of the corporate governance goals within the organisation (Erickson et al., 2015).

Thoroughgood et al. (2012) provided more insight into how destructive leaders force their followers to be non-complaint with corporate governance requirements. The hierarchical nature of the leadership structure in institutions such as banks makes it challenging for the followers to decide how to respond to destructive leaders, especially where organisations stress the need for the followers to obey authority. Thoroughgood et al. noted that some institutions require followers to

be passive and silent even when they witness unethical practices by the leaders. They also used Barbuto's theory, arguing that not all followers are easily forced into being non-compliant with corporate governance. Based on this theory, Thoroughgood et al. argued that the perceptions of followers towards leaders' behaviours influence the extent to which such leadership behaviours affect them. They highlighted three factors that determine the readiness of followers to respond positively to their leaders' influence. One such factor is the leader's perceived base of power, as followers are more inclined to respond positively if they believe that the leader is willing and has the authority to punish them if they disobey.

The second factor is followers' motivation, where the followers choose to conform because they are seeking affirmation, or because the leaders' actions reinforce their value systems. The level of resistance of followers also influences their readiness to conform. Thoroughgood et al. (2012) further argued that the ability of destructive leaders to promote nonadherence to corporate governance is limited by the willingness of the followers to conform. Conforming followers readily obey destructive leaders and participate in their leaders' quests to ignore corporate governance. Colluders contribute actively to the goals of destructive leaders. Colluders often desire to be like the leader, they feel an emotional connection with the leader and therefore they extend their support to the leader. Colluders support destructive leaders in achieving selfish gains.

Naseer et al. (2016) argued that followers, due to their inability to challenge destructive leaders directly, resort to adopting less desirable behaviour, which can be detrimental to the leader and organisation. Naseer et al. indicated that the less desirable behaviours include reluctance, reduced performance and limited exercise of creativity (Naseer et al., 2016). Followers who are led by destructive leaders who lack integrity and morality are likely to ignore ethical practices in the workplace and, therefore, to enhance non-adherence to corporate governance.

Shahzad and Mahmood, (2012) examined how organisation cynicism is associated with deviant behaviours among bank employees in Pakistan. The evidence they provided further shows how destructive leaders force their followers into non-adherence to corporate governance. From the analysis of self-reported data from 332 employees of different banks in Pakistan, they concluded that deviance among employees arises due to organisational cynicism. Organisational cynicism is created and perpetuated by destructive leadership (Shahzad and Mahmood, 2012). Destructive leaders can make employees think that the organisation lacks integrity and honesty, which results in them developing negative behaviours towards the organisation. The deviant

behaviours of the employees vary, and they can include absenteeism, breaking organisational rules and stealing (Shahzad and Mahmood, 2012).

### ***2.10 Summary & Gap identified in literature***

There are numerous studies focused on destructive leadership practices in the banking sector. Burchard (2011) focused on ethical dissonance and the response to destructive leadership. Some authors focused on the relationship between destructive behaviours and leadership (Geoff et al., 2013). Other studies focused on injustice and destructive leadership, follower attitudes and creating destruction (Crellin, 2013). Chughtai (2013) examined the role of human resources practices in turnover and the mediating effect of employee engagement. Several researchers examined the importance of leadership and its effect on the banking industry in Pakistan. At the same time, there were no studies related to destructive leadership, its relationship with corporate governance and its effect on followers in the banking industry in Pakistan. This study addresses and clearly explains the gaps in the research. This study is an attempt to bridge that gap. Analysing the existing research, this research provides a clear overview regarding destructive leadership and how it influences its followers in the banking sector, and regarding leader loyalty in contrast to organisational loyalty. This research will help future researchers and the banking sector in Pakistan to understand the effect of destructive leadership on its followers and the factors that influence destructive leadership in the banking industry.

## **CHAPTER 3 - RESEARCH METHODS**

The research methodology is particular techniques or procedures utilised to identify, recognise, select, process, and examine the collected information regarding the topic. In this research the section on methodology allows the reader to critically examine the overall validity and reliability of research and its findings. This section answers two primary sections. The first is steps applied to data collection and what approaches are applied for data analysis to answer research questions and attaining research objectives (Keashly et al., 2011). Therefore, this section looks at several research methodologies and research techniques that are commonly used by other researchers in the area of research and analysing Destructive Leadership in accordance with corporate governance and its impacts on corporate governance in Pakistani financial institutions (Namie et al., 2010). Therefore, this section discusses the following sub-sections; the research approaches to be selected from deductive or inductive approaches based on the nature of type study. Another sub-section discussed is research philosophies such as positivism, interpretivism, realism, and pragmatism, data collection method, primary or secondary, and data analysis methods. This chapter also discusses, variables used in this study along with their quantification.

### ***3.1. Context of the Research***

This research explored destructive leadership practices in the banking industry in Pakistan and its effect on followers, promoting organisational corruption. It explored the means through which a destructive leader seeks to maximise his or her personal gain, collectively or independently, through the assistance of followers who willingly or unwillingly assist him or her. The research also examined the types of followers that nurture destructive leadership practices, and the effects of destructive leadership on the organisation with regards to loyalty and ethical values.

### ***3.2. Research philosophy***

Research philosophy is explained as the set of beliefs that describes the process of collecting data, analysing it, and using it for further creating knowledge in the given field (Rahi, 2017). According to Rahi (2017), There are generally four types of research philosophies used by researchers that guide them throughout the research process. They are pragmatism, positivism, interpretivism, and realism. All these four types are explained briefly to showcase their relevant application in the field of research.

Pragmatism is embracing the elements of positivism and interpretivism and is used for mixed methodological approaches (Ågerfalk, 2013). In that context, the key aim of the researcher is to

employ inductive and deductive approaches. On the other hand, realism research philosophy is dwelled in the scientific process to unravel information and knowledge that is isolated from the human explanation (Howell, 2012). This is mostly classified as direct or real realism and opted for different methodological approaches that is appropriate for the research in hand.

According to Howell (2012), positivism is the research philosophy that is used when researcher wants to use independent observation of situations and uses objective way that ends up in the trusted and factual knowledge attainment. This philosophy is well-structured and distances researcher from the findings that infers objectivity of the study. This philosophy clearly limits the role of researcher and uses quantitative research methodology under deductive approach (Howell, 2012; Levers, 2013). This also involves establishing hypothesis from previous studies. On the other hand, interpretivism is the research philosophy that includes human responses in the study to attain meanings and also links researcher with the work known as “subjective epistemology” (Rashid et al., 2019). This particular philosophy does not consider generalisation as it focuses on the subjective human viewpoints as the fundamental basis for the study.

Against all these mentioned philosophies, this study uses pragmatism research philosophy for the following reasons. This study chooses mixed research methodology and uses questionnaire and interviews as the sources of collecting data. This mixed methodology offers rich data to attain objectives of the study (Ågerfalk, 2013). Second, this study prefers pragmatism as using this philosophy provides an action-oriented framework where the aim of the study is to address the issues of corporate governance and ethical problems due to destructive leadership in Islamic banking system. Findings from the study explains the viewpoints of leaders in Islamic banking and employees working in the banks.

Furthermore, Saunders et al. (2015) argued research philosophy is the significant component of research which describes the theoretical aspect of the study in more depth. As the influence of different attributes of destructive leadership on non-adherence to corporate governance entails comprehensive investigation for assessing the impact of destructive leadership on compliance with corporate. Therefore, for this research, the investigator of the study decided to used pragmatism philosophy since it helps the researcher to integrate both qualitative and quantitative research methods within the same research so that authentic and reliable findings can be acquired.

### **3.3. Research Design**

The type of research design represents the set of procedures and methods that the researcher has carried out for gathering and analysing the data (Rahi, 2017). A research design that is commonly followed in different studies falls under three types of categories, which involves quantitative, qualitative, and mixed research design. According to Schoonenboom and Johnson (2017), making the selection amongst different types of research design is highly dependent on the type of research questions that researcher is intended to answer, and the nature of the research topic. Qualitative research design mainly deals with a more subjective type of data, in which researcher looks to gain some deep insights about human behaviour, opinions, and reasons about the particular phenomenon (Stratford and Bradshaw, 2016). On the other hand, quantitative research design deals with providing more factual and statistical data, so that the association between the different variables of the study can easily be examined.

The research presents a quantitative and qualitative analysis of the destructive leadership and corporate governance in banks of Pakistan. Destructive leadership has been critically studied by scholars and researchers to answers the questions raised by investors, stakeholders and even by governmental organizations. The cases of Enron and WorldCom have been set as exemplary failures of corporate governance and affected people can never forget that trauma landed overnight on them without an announcement and early warning (Dibra, 2016; Eckhaus, Sheaffer, 2018; Akhigbe, Martin and Whyte, 2005; Pandey and Verma, 2005). Similarly, destructive leadership has been termed as strong managers and weaker owners in which board loyalty creates biases leading to destructive outcomes (Forbes and Watson, 2010). In this regards, Disney's CEO Michael Eisner case has not been very old to exemplify the negative corporate outcomes as a result of the stronger manager and weaker owners (Downes, Russ and Ryan, 2007; Forbes and Watson, 2010). Considering all these aspects that have been discussed greatly in literature and through which the basis for the following study had emerged aims to conduct quantitative and qualitative analysis on the destructive leadership and corporate governance in banks of Pakistan.

As the topic of this study suggest, research in this study has made the use of mixed research design by employing both quantitative and qualitative methods. The investigation on the influence of different attributes of destructive leadership on non-adherence to corporate governance requires comprehensive analysis and proof to attain the main purpose of the study. According to Turner, Cardinal and Burton (2017), the use of mixed research design is useful for expanding and

strengthening the study's conclusion, and also for answering complex research questions. Therefore, considering the extensive requirement and nature of this study the use of mixed research design has been identified as a more suitable approach. Moreover, another main rationale of using mixed research design in this study is to ensure the reliability and authenticity of research findings, as it allows the researcher to compare both the results that come from quantitative and qualitative methods. Moreover, under given philosophical position i.e. pragmatism research philosophy, this study uses mixed method design and offers extended research on the topic of the study. This methodology has been helpful as it is estimated that since there was an external and objective reality to the world where we live, the way where every one of use explain and acquire knowledge about how it will affect our specific social condition (Albrecht et al., 2015). In order to accommodate this, given study has used mixed methodology and used quantitative evaluation of responses collected from the employees of banks and qualitative data to explore viewpoints of people working in the banks. Under pragmatism and mixed methodology, researcher perceives that following one philosophical position is not helpful; rather, it is more helpful to choose the mixed methodology and allow the choice of selecting whatever position or mixture of studies is important to carry out their study. In the given study, the nature of the research questions, the context of the study and the consequences of the study were driving forces that determined the most adequate methodological choice for the study.

### ***3.4. Methods of Data Collection and Analysis***

Shaw et al. (2011) extensively wrote on the method to measure destructive leadership and its components. This paper formed the basis for this research, which included a qualitative study of the behaviours and responses to destructive leadership associated with the followers' perceptions that leaders are be bad or good.

Expert interviews were conducted in the largest Islamic banks in Pakistan, where around five to six functional heads were interviewed to understand their leadership styles and their individual attributes, qualities and behaviours as leaders. This explained the leaders' commitment to goals. O'Conner et al. (1995) stated that leaders may be more interested in personal outcomes. This study explored the psychology of destructive leaders when intending to commit fraudulent activities, their motivation levels and the opportunities to engage in corruption and similar cases. Another aspect to study is the level of leadership engagement that is required or that prevails to achieve leadership goals and leader-follower relationships. This also covered how leaders gain

followership within their own departments and achieve employee loyalty to get their tasks completed.

Employees were surveyed through a Destructive Leadership Questionnaire, where the aim was to assess their perceptions of the effect of destructive leadership types on their psychology, behaviour and motivation and the point at which they willingly or unwillingly collude with the leader to achieve mutually exclusive intrinsic or extrinsic goals. This survey measured the following categories: autocratic behaviour of the leader, communication, interpersonal behaviour, political behaviour and ethics. Through this questionnaire, employee loyalty to the leader vs. the organisation was gauged, and leaders' willingness to participate, their work ethics, and their commitment level was also measured. The survey was distributed to respondents to gather their points of view on their behaviour, outcomes and their needs that enable them to support their leader, leading to organisational corruption. Erickson et al. (2007) developed the measures the researcher needed: ethics/integrity, leader-follower exchange, excessive political behaviour, communication, interpersonal relationship and personal behaviour. This helped in understanding the relationship between a leader and his or her subordinates and how the quality of the relationship affects/causes organisational corruption.

In addition, the researcher used Stata and SPSS to analyse the data from the employee survey, and various hypotheses were tested. A five-point Likert-type scale was used to capture the subjective data. Descriptive statistical analysis was carried out for scale questions, and mean, median and mode were used to check the frequency of responses and the percentages of commonly occurring behaviours.

In detail the location of the study Pakistan in which 33 banks were operating and few banks had two types of divisions; and considering both types of banks conventional banks and Islamic banks, there are overall 49 banks. These 49 banks have hundreds of the branches through Pakistan across four provinces and capital city and federally administrated tribal areas (FATA) and Azad Jammu and Kashmir (AJ&K) (SBP, 2020; Ansari, 2014). As of Dec 2019, there were 14,603 total branches of all types of banks in Pakistan that means on average there are 265 branches of each type of banks in Pakistan and this was a population of the following study on which survey and interviews were to be conducted (Altaf et al, 2019). In addition, the target population of the following study was full-fledged Islamic banks which further narrowed sample to 3,965 Islamic Banks branches across Pakistan as of 2019 and that was a potential number of banks from which

the respondents were to be selected for the research, and a normal bank branch has as many employees as 20 including manager and since the following study only focused on the middle managers and branch manager then each of the branches has these roles in management. Therefore, the overall population of the study further extended to a total of 7,950 consisting of middle managers and branch managers. However, the sample of the study was further shortened to one bank originates from United Arab Emirates (UAE) referred as “Bank 1” and one originating from Bahrain referred as “Bank 2 out of 4 full-fledged Islamic banks in Pakistan (which started as Islamic bank and do not have conventional banking) as a target sample in which study has a total population of 2,560 potential respondents.

In order to gather first-hand data and to make a useful contribution in existing literature, the researcher in this study has made the use of primary data collection methods. For that purpose, different processes have been carried out for conducting a survey questionnaire and interviews. In qualitative methods, interviews served as a primary source of data, and the observations that researcher have documented during interviews played an informative and essential role in the process of data collection. According to Pheng and Hou (2019), the collection of data during the interview while observing participants is one of the useful techniques for improving research credibility. In accordance with the same study, the process of documenting qualitative data without distorting its actual meaning is one of the difficult tasks for any researcher. Thus, any error in the process of data collection can make the results invalid. To address this issue, the researcher has recorded the audio of interviews so that no important information can be missed out, and the precise interpretation of interview data can be ensured. Following that the recordings of each interviewee have been carefully listened to develop transcripts, and to record the actual responses of each respondent.

All the interviews were carried out at mutually agreed upon convenient locations, time, and in a professional environment. This, as a result, minimised distraction and also enabled the respondents to answer each question honestly and openly. To collect quantitative data, the researcher has conducted a survey questionnaire from middle and lower management from both the selected banks. The target population was approached through online channels, as the researcher sent around 150 questionnaires each in both the banks. However, 199 responses were gathered from all banks. The development of a survey questionnaire was a crucial step, which requires the incorporation of all the questions that can address the main objectives of the study.

Therefore, the researcher has ensured to include all the important variables or factors in the questionnaire, so that each aspect of the study can be cover.

### **3.5. Sample and Respondents**

The identification of the right population and establishing the most appropriate sample for the study holds huge importance for attaining reliable information. The population of the study refers to the complete set of people that shares similar characteristics and are suitable for providing authentic information about the research topic (Taherdoost, 2016). On the other hand, sample refers to the subset of the population, which contains those members of the population that are being approached by the researcher. In this regard, the right selection of sampling technique is crucial for reaching out to the most reliable and authentic people to conduct a survey. In this study, the researcher has followed a convenience sampling technique in order to reach out to the study population. Convenience sampling technique is one of the most prominent techniques of non-probability sampling, in which researcher looks to take the sample from a group of people that is easy to reach out (Etikan, Musa andAlkassim, 2016).

Since the main focus of this study is on Islamic Banking, thus the main population of the study was all the members that were associated with the industry of Islamic Banking in Pakistan. In this regard, based on the technique of convenience sampling, the researcher has selected two Islamic Banks for the survey, which includes Bank 1 and Bank 2. Moreover, as this research study requires the critical examination of destructive leadership; therefore, the researcher has selected leaders and State Bank Auditor for interviews to collect the most relevant information. On the other hand, in the followers' survey, the target population was middle management and lower management from both banks. This has enabled the researcher to collect comprehensive information about the research topic.

Sample size as another important aspect of the methodology refers to the number of participants that have been measured or observed during the survey (Boddy, 2016). In this study, different sample sizes have been selected for a survey questionnaire and interviews. For the survey questionnaire, the sample size of 150 has been selected from each bank, the data of which is considered during the analysis of results. On the other hand, the sample size for interviews that have been followed is 9, which involves 8 leaders and 1 State Bank Auditor. See table below for illustration:

Sample Type	Qualitative (Interveiws)	Quantitative (Survey)
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Sample	9	199
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A survey has always been conducted by the researcher in the field, but the emergence of technology and world web has provided more flexible options that ensure a quicker and easier process with some limitations. In this study, 150 bank branches were randomly selected from 440 branches of Bank 1 and Bank 2 leading to 300-line managers and middle managers and were contacted through emails to participate in the study on a voluntary basis. During the data collection, 212 responses were gathered after sending reminders twice, and among 212 responses 13 were questionnaires were not duly and sufficiently filled enough to qualify for the sample. Therefore, the final sample of the study was kept at 199 and analysis were conducted on the basis of 199 responses leading response rate of 66.33%. Since the following study had to undertake the survey, hence ethical agreement from the committee was approved prior to the survey, and researcher also had the consent with the participants that their identity would be kept anonymous and that data will be destroyed after empirical analysis; so, all data that could have been used to track back participants was destroyed as disable unintentional dismantle of personal information that could have affected their role and job in Pakistan.

The researcher approached the research problem through pragmatist philosophy, using qualitative and quantitative tools to explore the research objectives. The research used deductive reasoning to determine the attributes of leaders that encourage certain followership behaviour leading to organisational corruption. This addressed the specific research objectives regarding leader-follower exchange, contextual factors that lead to such leadership and the overall effects on the ethical values of the organisation. The focus is the role followers play in encouraging destructive leadership, among all other contextual factors. Kellerman (2004) identified different types of destructive leaders. This study explored supportive-disloyal leadership that constitutes organisational corruption and fraud in the banking industry, pro-subordinate behaviour, anti-organisational behaviour, collectivist/individualistic approaches and overall effects on the organisation and employee outcomes.

### ***3.6. Coding of Qualitative Themes and Quantitative Scale scores***

Research instrument refers to the tool that is used to gather, measure and analyse data pertaining to the research topic (Taherdoost, 2016). In the qualitative research interview, the

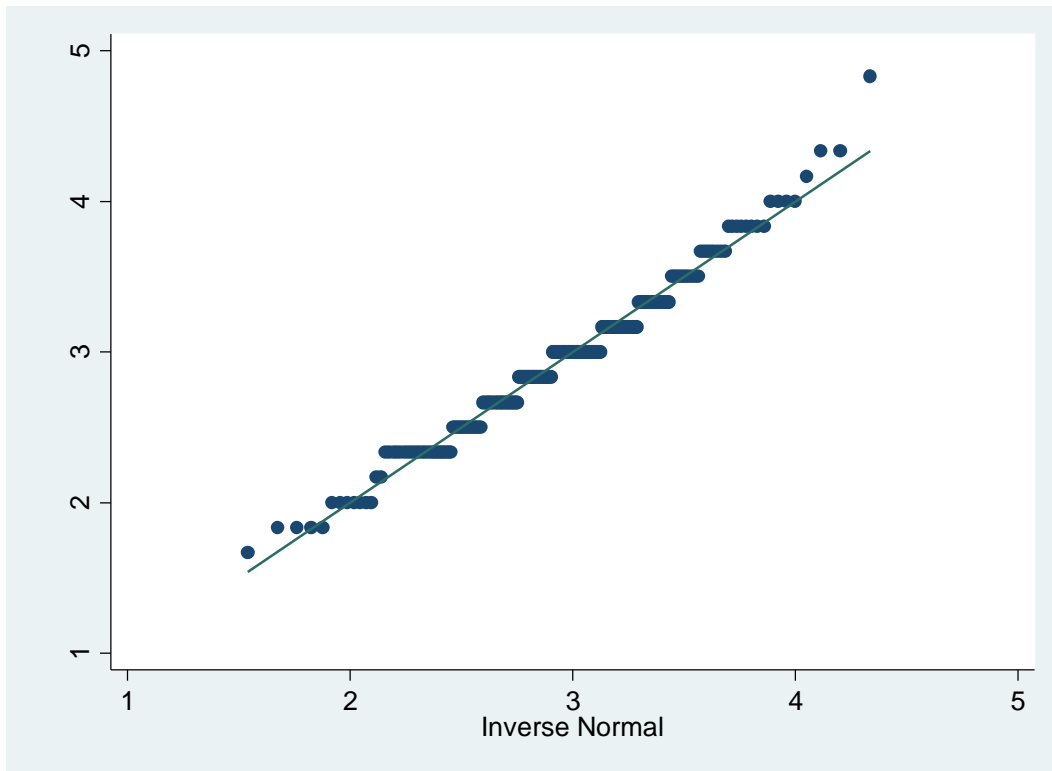
researcher has followed a semi-structured type of interview script, which remains open-ended for the respondent to freely answer the interview questions. As mentioned in the study of Kallio et al. (2016), Semi-structured interviews instruments develop consistent scope and direction for the interviews while enabling the interviewees with an opportunity to provide unstructured responses. Moreover, the researcher has included 42 questions in the interview, which was asked from each respondent and recorded through a digital voice recording device.

The designed questionnaire is a component to help understand how various organizations' management handles ethical, professional, corruption, employee loyalty, fraud web and employee motivation. The research questions lean toward corporate governance because they focus on leadership qualities of a leader who is deemed to be unfair to his or her employees. During the evaluation process, the researcher has subsequently identified questions that support conceptual framework research model about the research questions. The evaluation process also pay attention to aspects of the questionnaire that provides non-parametric statistics during the quantitative analysis process that rely on multiple concepts to determine the relationship between the leaders and the employees about the subject matter. The questions have been obtained from James Shaw's work "a method for measuring destructive leadership and identifying types of destructive leaders in organizations." (Shaw, 2011)

Subsequently, the questionnaire is outlined in a manner that prompts the respondent to reply to give genuine and observatory response. The analytical aspect of the evaluation strategy is meant to unearth the underlying issues concerning destructive leadership with an organization. On the other hand, for quantitative research and in order to develop a survey questionnaire, the researcher has used Google Form as an online tool. Following that the questionnaire was disseminated to all the target audience, which involves 300 members of lower and middle management from each bank of Bank 1 and Bank 2. The questionnaire consisted of three types of questions: (1) dichotomous questions (2) demographic questions and (3) 5-point Likert scale questions. The dichotomous questions were used to distinguish between the middle manager and branch manager; whereas demographic questions were specifically used to determine the level of education and experience; lastly 5-point Likert questionnaires were used to measure the variables through agreement and disagreement of respondents on the statements. Furthermore, to attain numerical observations for the statistical analysis, dichotomous questions were represented by 1 to 2, demographics from 1 to 4 and lastly Likert scale questionnaires were designed from 1

representing strong disagreement and 5 representing strong agreement. Furthermore, in diagnostics preliminary analysis, the questionnaire was assessed through Cronbach's alpha to determine the reliability of the construct used in the study to measure the theoretical concepts to comply with the scholarly work such as Taber (2018) suggested that Cronbach's alpha for the questionnaire should be at least 0.7 to be qualified for further analysis.

The right use of techniques for analysing collected data holds huge importance for achieving desired outcomes from the study (Angelov, Gu and Príncipe, 2017). The selection of data analysis techniques highly depends on the type of data that has been collected, as there are different techniques for analysing qualitative and quantitative data. Therefore, in order to analyse the results of the survey questionnaire, the researcher has incorporated frequency analysis, regression analysis, and correlation analysis. Meanwhile, to ensure data is approximately normally distributed, Q-Q plot was used as follows:



*Figure 4 Q-Q Plot using Pearson's correlation and multiple regression*

The figure 4 above shows that data is approximately normally distributed on which Pearson's correlation and multiple regression can be conducted. All these tests are conducted

through Stata version 14 and SPSS. The incorporation of all these tests has allowed the researcher to comprehend the association between different attributes of destructive leadership and non-adherence to corporate governance. On the other hand, for the analysis of interview data has been made through thematic analysis. In this technique, the researcher has identified the common themes and patterns of ideas and meanings that come repeatedly and present it in the report. Moreover, to ensure the validity and reliability of research findings, the researcher has followed the triangulation approach by comparing the results of both quantitative and qualitative methods.

## CHAPTER 4 - RESULTS & DISCUSSION

This chapter is divided into two categories: quantitative analysis and qualitative analysis. The initial part of the chapter discusses different methods, tools and procedures that are used to address the questions and objectives of this study. The appropriate selection of research methodology carries out huge importance for accomplishing the successful execution of study (Kumar, 2019). Therefore, this chapter pertains to the critical analysis of each method, and to present the key rationale of using certain methods for executing this study.

### *4.1 Quantitative Analysis – Evidence of defiance of Corporate Governance, destructive leadership and fraud*

With respect to the description provided in the introduction and related to the research design, data collection procedure and the sampling methods were used. The researcher has divided the analysis into quantitative and qualitative analysis to draw the conclusion accordingly. In this section, the quantitative analysis has been carried out in detail to answer the relevant research questions and hypotheses.

#### *4.1.1 Research Hypotheses analysis*

- H1: Inability to develop and motivate subordinates represents significantly destructive leadership significantly.
- H2: Harassing employees/acting in a brutal bullying manner significantly affects compliance with corporate governance and represents destructive leadership significantly.
- H3: Lack of credibility within the organisation represents significantly destructive leadership significantly.
- H4: Acting in an insular manner relative to other groups in organisation represents significantly destructive leadership significantly.
- H5: Lying and other unethical behaviour significantly affects non-compliance/adherence to corporate governance (or represents destructive leadership)significantly.
- H6: Exhibiting inconsistent and erratic behaviour significantly affects compliance with corporate governance significantly.

H7: Overly emotional and negative psychological characteristics of leaders represent significantly destructive leadership significantly.

H8: Non-compliance with corporate governance promotes destructive leadership.

#### ***4.1.2 Demographics of Respondents***

The demographic variables included gender, age, academic qualification and professional experience. Table 3 demonstrates the number of the male and female participants in the study; the table shows that study consisted 34 (17.09%) female participants and 165 (82.91%) male participants and this implies that survey responses were dominated by the male participants, but the opinion of the female participants was also included to avoid biases, and this will also make findings more generalized in terms.

*Table 3: Gender of Participants*

Gender	Freq.	Percent	Cum.
Female	34	17.09	17.09
Male	165	82.91	100
Total	199	100	

Table 4 demonstrates the age brackets of the participants of the study; where it is found that 97 (48.74%) participants of the study belonged to the age group of 26 years old to 35 years old; 79 (39.7%) participants belonged to the age group of 36 years to 45 years old, whereas study also contained 12 (6.03%) participants above the age of 46 years and 11 (5.53%) below the age of 25 years. Meanwhile, it is the evident majority of the participants belonged to the age group of 26 to 35 years old followed by 36 to 45 years old.

*Table 4: Age group of Participants*

Age	Freq.	Percent	Cum.
26-35 Years	97	48.74	48.74
36-45 Years	79	39.7	88.44
46 and above	12	6.03	94.47
Below 25 years	11	5.53	100
Total	199	100	

Table 5 demonstrates the level of academic qualification of the participants of the study; 66 (33.17%) participants had bachelor's education, 115 (57.78%) had master's or above education, followed by 10 (5.03%) Matriculation and lastly intermediate 8 (4.02%).

*Table 5: Academic Qualification of Respondents*

Academic Qualification	Freq.	Percent	Cum.
Bachelor	66	33.17	33.17
Intermediate	8	4.02	37.19
Master	1	0.5	37.69
Above Masters	114	57.29	94.97
Matriculation	10	5.03	100
Total	199	100	

The frequency of the academic qualification, a majority of the sample size more than 50% had at least a master's degree or above. This assures to achieve unbiased results from respondents with good academic qualification and that reliability of the sample could not be questioned since a large portion of the sample is highly qualified individuals from the banking industry of Pakistan.

*Table 6: Professional Experience of the Respondents*

Professional Experience	Freq.	Percent	Cum.
1-3 Years	29	14.57	14.57
3-5 Years	45	22.61	37.19
5-10 Years	31	15.58	52.76
Above 10 Years	84	42.21	94.97
Less than 1 Year	10	5.03	100
Total	199	100	

Table 6 demonstrates the professional experience of the respondents, it is evident that 84 respondents equal to 42.21% have experience greater than 10 years in the banking industry, 45

(22.61%) participants had professional experience between 3 years to 5 years, 31 (15.58%) participants had experience from 5 to 10 years and only 10 (5.03%) participants had experienced less than a year in Banking industry. From the break-down of the respondents, it can be stated that majority of the respondents in the sample had sufficient experience to reflect views on the study through a survey.

#### 4.1.3 Factors Analysis

There were 25 independent variables of the study and one dependent variable non-compliance to corporate governance. The factors analysis was conducted with the purpose to determine an appropriate number of factors that can actually define what is being observed or measured by construct (Brown, 2015). In survey analysis, questionnaire or construct is a method to collect data and construct is specifically designed to measure certain theoretical concepts. Thus, it is critical to evaluate and assess the extent to which factors have been measuring the theoretical concepts, and in this regard, it has been suggested by Wipulanusat, Panuwatwanich and Stewart (2017) that factor having a value less than 0.6 must be dropped since it is sufficient evidence to claim that factor is not actually measuring the theoretical concept as it was initially designed and adopted to measure certain concept. Based on this explanation, the factors analysis was conducted to which Table 7 demonstrates below:

*Table 7: Factor Analysis*

Factors	Value (Pattern Matrix)
Factor 1 Making decision based on inadequate information	Dropped
Factor 2 Acting in a brutal bullying manner	0.7231
Factor 3 Lying and other unethical behaviour	0.7364
Factor 4 Micro-managing and over-controlling	Dropped
Factor 5 Not making expectations clear to subordinates	Dropped
Factor 6 Ineffectual at negotiation and persuasion	0.745
Factor 7 Inability to deal with new technology and other changes	Dropped
Factor 8 Inabilities to deal with interpersonal conflicts or similar situations	0.7779
Factor 9 Lack of credibility within the organization	0.7249

Factor 10 Playing favourites and other division behaviour	0.6682
Factor 11 Telling people what they want to hear?	0.6491
Factor 12 Ineffective in coordination and management of the issue	-0.7181
Factor 13 Not seeking information from others	Dropped
Factor 14 Acting in an insular manner relative to other groups in the organization	Dropped
Factor 15 Ineffective communications	0.7093
Factor 16 Not having skills to match the job	Dropped
Factor 17 Inability to prioritize and delegate	-0.604
Factor 18 Exhibiting inconsistent, erratic behaviour	0.7482
Factor 20 Inability to understand and act on a long-term view	0.6001
Factor 19 Unwillingness to change mind and listen to others?	Dropped
Factor 21 Inability to develop and motivate subordinates	-0.647
Factor 22 1P an inconsiderate tyrant	0.7689
Factor 23 2P lazy and incompetent	0.7464
Factor 24 3P overly emotional with negative psychological characteristics	Dropped
Factor 25 4P careless when dealing with people in various situations	Dropped

Table 7 shows that 10 variables having a value less than 0.6 value in absolute terms are dropped since they could not explain the observed value and their inclusion in the study could have led to undesired, unnecessary and spurious regression (Wipulanusat, Panuwatwanich and Stewart, 2017). Therefore, these factors were dropped from the study to ensure the inclusion of factors that could explain the variance of the observed variable.

#### **4.1.4 Inferential statistics**

The given study uses correlation coefficient to see if destructive leadership and fraud has any impact on the followers' motivation level, their employee loyalty and ethics. The findings of the study shows that there is a significant and negative relationship between destructive and fraud with employees' level of motivation, loyalty and ethics. This is measured by following factors that were remained in the study after exclusion of those factors that had values lower than 0.6.

Correlations												
	Factor 2 acting in a brutal bullying manner	Factor 6 Ineffectual at negotiation and persuasion	Factor 8 Inabilities to deal with interpersonal conflicts or similar situations	Factor 9 lack of credibility within the organization	Factor 10 playing favorites and other division behaviors	Factor 11 telling people what they want to hear?	Factor 12 ineffective in coordination and management of issue	Factor 15 ineffective communications	Factor 17 inability to prioritize and delegate	Factor 18 Exhibiting inconsistent, erratic behavior	Factor 20 inability to understand and act on a long term view	
Factor 2 acting in a brutal bullying manner	Pearson Correlation	1	.243**	.321**	.418**	.260**	.345*	-.273**	.416**	-.308**	.401**	-.374**
	Sig. (2-tailed)		.001	.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 6 Ineffectual at negotiation and persuasion	Pearson Correlation	.243*	1	.315**	.388**	.255**	.437*	-.492**	.384**	-.274**	.307**	-.362**
	Sig. (2-tailed)	.001		.000	.000	.000	.000	.000	.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199

Factor 8 inabilities to deal with interpersonal conflicts or similar situations	Pearson Correlati on	.321*	.315**	1	.402**	.346**	.245*	-.331**	.525**	-.305**	.552**	-.403**
	Sig. (2- tailed)	.000	.000		.000	.000	.000	.000	.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 9 lack of credibility within the organization	Pearson Correlati on	.418*	.388**	.402**	1	.390**	.416*	-.380**	.327**	-.248**	.436**	-.364**
	Sig. (2- tailed)	.000	.000	.000		.000	.000	.000	.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 10 playing favorites and other division behavior	Pearson Correlati on	.260*	.255**	.346**	.390**	1	.435*	-.227**	.317**	-.254**	.406**	-.293**
	Sig. (2- tailed)	.000	.000	.000	.000		.000	.001	.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 11 telling people what they want to hear?	Pearson Correlati on	.345*	.437**	.245**	.416**	.435**	1	-.428**	.371**	-.187**	.414**	-.393**
	Sig. (2- tailed)	.000	.000	.000	.000	.000		.000	.000	.008	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 12 ineffective in coordination	Pearson Correlati on	-.273*	-.492**	-.331**	-.380**	-.227**	-.428*	1	-.326**	.356**	-.349**	.458**

and management of issue	Sig. (2-tailed)	.000	.000	.000	.000	.001	.000		.000	.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 15 ineffective communications	Pearson Correlation	.416*	.384**	.525**	.327**	.317**	.371*	-.326**	1	-.249**	.564**	-.486**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		.000	.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 17 inability to prioritize and delegate	Pearson Correlation	-.308*	-.274**	-.305**	-.248**	-.254**	-.187*	.356**	-.249**	1	-.352**	.488**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.008	.000	.000		.000	.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 18 Exhibiting inconsistent, erratic behavior	Pearson Correlation	.401*	.307**	.552**	.436**	.406**	.414*	-.349**	.564**	-.352**	1	-.418**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000		.000
	N	199	199	199	199	199	199	199	199	199	199	199
Factor 20 inability to understand and act on a long term view	Pearson Correlation	-.374*	-.362**	-.403**	-.364**	-.293**	-.393*	.458**	-.486**	.488**	-.418**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	
	N	199	199	199	199	199	199	199	199	199	199	199
**. Correlation is significant at the 0.01 level (2-tailed).												

The findings show that destructive leadership measured by factor 2, 3, 6, 8 and fraud measured by factor 9,10,11 results in employee low level of motivation level, employee loyalty and ethics measured by factors 12, 15, 17, 18, and 20 shows significant relationship with each other at .243\*\*, .321\*\*, .418\*\*, .260\*\* , .345\*\*, -.273\*\*, .416\*\*, -.308\*\*, .401\*\*and -.374\*\* . This shows that hypothesis of the study are accepted, indicating that there is a significant and positive relationship between destructive leadership and fraud with decreasing level of employee motivation, low employee loyalty and low level of ethics.

#### **4.1.5 Research Questions**

***Question 1: How can destructive leadership & fraud affect followers' motivation levels, employee loyalty and ethics?***

The first question of the study was to evaluate how destructive leadership and fraud has been affecting the followers' motivation levels, employee loyalty and ethics. In this regard, Forbes and Watson (2010) have indicated that destructive leadership is a consequence of strong manager and weaker owners; where the strong managers can be those who are in charge of the management and decision-making body within the organization. The level of motivation of employees and employees' loyalty is also being affected by the type of leadership within the organization, and employees can be frustrated with the type of management in the organization (Okan and Akyüz, 2015). Meanwhile, employees have also been following orders of managers, but if the decision managers / leaders are apparently against the organizational mission, objectives and core values than this type of actions of managers lead to suspicious behaviour of employees. It is because they perceive the decisions of the managers not in accordance with the core values, and secondly, such decisions are often influenced by personal benefits despite a greater influence of Board remains on the management (Kaiser and Craig, 2014). However, due to biases inboard the corporate governance turns to be ineffective despite great importance in controlling the direction of the organization (Ciftci et al, 2019). In addition, to evaluate empirically extent to which destructive leadership and fraud affect followers' motivation levels and employee loyalty and ethics, regression analysis and correlation analysis were conducted, and results of the regression and correlation are presented below in Table 8:

Table 8: Multiple Regression (OLS) Analysis

Non-Adherence to Corporate Governance	Coef.	Std. Err.	t	P	[95% Conf.	Interv al]
2P lazy and incompetent	-0.10	0.07	-1.40	0.17	-0.24	0.04
1P an inconsiderate tyrant	-0.10	0.06	-1.54	0.13	-0.22	0.03
Inability to develop and motivate subordinates	-0.19	0.10	-1.99	0.05	-0.38	0.00
Inability to understand and act on a long-term view	0.01	0.06	0.23	0.82	-0.10	0.13
Exhibiting inconsistent, erratic behaviour	0.12**	0.07	1.89	0.06	-0.01	0.25
Inability to prioritize and delegate	0.04	0.07	0.57	0.57	-0.09	0.17
Ineffective communications	-0.05	0.07	-0.82	0.41	-0.19	0.08
Ineffective in coordination and management of issue	0.05	0.07	0.71	0.48	-0.09	0.18
Telling people what they want to hear?	0.02	0.05	0.46	0.64	-0.08	0.12
Playing favourites and other division behaviour	-0.06	0.06	-1.04	0.30	-0.17	0.05
Lack of credibility within the organization	-0.06	0.06	-1.11	0.27	-0.18	0.05
Inabilities to deal with interpersonal conflicts or similar situations	-0.03	0.07	-0.41	0.68	-0.16	0.11
Ineffectual at negotiation and persuasion	0.01	0.06	0.09	0.93	-0.12	0.13
Lying and other unethical behaviour	0.04	0.06	0.73	0.47	-0.07	0.16
Acting in a brutal bullying manner	0.04	0.08	0.50	0.61	-0.11	0.19
<b>constant (Intercept)</b>	3.55	0.51	6.91	0.00	2.53	4.56
R-squared	0.109					
Prob. > F	0.11					

The coefficient of determination of the regression model is 0.109 that suggests 10.9% variability of the non-adherence to the corporate governance can be explained by the other factors included in the model. Meanwhile, the R-squared is lower and weaker which indicates that 89.1% variability of the model can be explained by the predictors those have not been included the model (Hamilton, Ghert and Simpson, 2015). As per the authors, the value of the R-square may not be sufficient to tell goodness of fit since it depends on the magnitude of variance of population that influence the r-square. This may be the reason that model is statistically insignificant as the prob.>F (p-value) of the model is 0.11 that is greater than 0.05 and 0.1 suggesting to claim the variables in the model have failed to explain the variability of the non-adherence to corporate governance significantly (Nakagawa, Johnson and Schielzeth, 2017). It can also be stated that there is a higher probability that there is a high residual that has left model insignificant (Cheng and Garg, 2014). Meanwhile, all independent variable has no significant effect on the non-adherence to corporate governance except erratic behaviour has a positive effect on the non-adherence to corporate governance. Therefore, it can be determined that inconsistent behaviour of the managers is associated with the non-adherence to corporate governance, thus it should be avoided to disable organizations to adopt destructive behaviours.

This finding also suggests that inconsistent behaviour to follow the rules and regulations imposed by the bank affects the motivational levels and employee loyalty based on the fact that managers have been focusing on their personal goals and aims to which employees perceive as fraud or lack of seriousness in the behaviour of managers and that ethical aspects are also undermined (Aasland et al., 2010). Therefore, it is determined the erratic behaviour is one of the major consequences of the non-adherence to corporate governance of the banks and this ultimately led to destructive behaviour and fraud among the managers. As a result of adopted destructive leadership and fraud negatively affects the motivation and loyalty of the employees in the Banks.

*Table 9: Non-Adherence to Corporate Governance by Grade level*

Non-Adherence to Corporate Governance by Grade level					
Variable	Obs	Mean	Std. Dev.	Min	Max
Lower Management	111	2.92	0.54	1.67	4.33
Middle Manager	88	2.96	0.55	1.83	4.83

Table 9 demonstrates that on the average agreement of the lower management was 2.92 (SD 0.54) and the mean of middle managers was 2.96 (SD 0.55); this suggests that on average lower management and middle managers were agreed that non-adherence to the corporate governance is influenced by lack of compliance with rules, ineffective investigations towards corruption and malpractices. In this regard, literature also suggests that destructive leadership increases the employee turnover in organization because the leadership is consistently neglecting overall goal of the organization and this also makes employees be suspicious on management and their concern of job security increases along with dissatisfaction (Craig and Kaiser, 2013; Hyson, 2016). Therefore, destructive leadership increases concerns for the employees since they perceive current affairs in the organization are not in accordance with overall goals and that rules and regulations are completely ignored (Schyns and Schilling, 2013). For an individual delighted to grow in career would find it uncomfortable and this would lead to the lower level of motivation and loyalty of the employees that would ultimately lead higher employee turnover in the organization (Aasland et al., 2010). Meanwhile, the destructive leadership also creates volitional behaviour in which each employee is concerned for his benefit and organizational goals are completely ignored. Apparently, there is a small difference but is it significant or not is not known for which Wilcoxon Rank sum test is conducted that a non-parametric version of sample t-test. Wilcoxon Rank sum test is used to determine if two populations are equal or there is significant difference between populations. Table 9 demonstrates results of the test:

$$z = -0.279$$

$$\text{Prob} > |z| = 0.7802$$

The p value is greater than alpha hence this suggest that there is enough evidence to claim that there is no significant difference between populations medians. Hence, it can be stated that non-adherence in the banks does not differ by grade level but can be equally found in each grade level employee.

***Question 2 how do destructive leadership and fraud along its followership create organizational corruption?***

This question is being answered through correlation analysis, regression analysis and also frequency analysis over the questions included in the survey; whereas it was confirmed through Q-Q plot that data is approximately normally distributed. Hence, Spearman correlation was not applied but Pearson's correlation was a better choice in accordance with scholarly practices. Table 10 demonstrates the Pearson's correlation results and provides interrelation of all variables with non-adherence to corporate governance, and the result shows that lazy and incompetent and ineffective communication has weak negative interrelation with non-adherence to corporate governance suggesting that laziness and incompetency and ineffective communication in banks are core reasons why non-adherence to corporate governance behaviour among managers emerges. It can also be exemplified as that non-adherence to corporate governance is the first step towards the establishment of the destructive leadership since they show laziness does not actively take actions against individuals to adhere to corporate governance. It is because there are personal agendas of managers and they only strive for the personal benefit at cost organizational long-term goals and sustainability.

*Table 10: Pearson's Correlation*

Variables	Coefficient
Non-Adherence to Corporate Governance	1.0000
2P lazy and incompetent	-0.1972*
1P an inconsiderate tyrant	-0.1806
Inability to develop and motivate subordinates	0.0292
Inability to understand and act on a long-term view	-0.0993
Exhibiting inconsistent, erratic behaviour	-0.0331
Inability to prioritize and delegate	0.091
Ineffective communications	-0.1838*
Ineffective in coordination and management of the issue	0.1358
Telling people what they want to hear?	-0.0851
Playing favourites and other division behaviour	-0.1188
Lack of credibility within the organization	-0.1801
Inabilities to deal with interpersonal conflicts or similar situations	-0.1754

Ineffectual at negotiation and persuasion	-0.1758
Lying and other unethical behaviour	-0.0706
Acting in a brutal bullying manner	-0.0885

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The correlation between the variables is also significant implying that relation exists significantly based on the implications can be drawn. Furthermore, from the point view of May et al (2015), destructive leadership emerges from the strategic bullying and unified theoretical framework that is also an abusive form of supervision for the personal interest rather than overall organizational interest. Therefore, this suggests that destructive behaviour and fraud are two interrelated phenomena, but fraud emerges from the destructive leadership in which destructive goals or contradictory goals are achieved at cost of going concern of the organization (Aasland et al, 2010). Furthermore, referring to the main question it intends to investigate how destructive and fraud along with its followership create organizational corruption then in this regard, the result of a regression test could be discussed.

The regression output discussed in the previous question shows that erratic behaviour has been found to have a positive effect on the non-adherence to corporate governance which means managers with erratic behaviour lead to non-adherence to corporate governance among the fellow employees. Since erratic behaviour refers to not being stick to the rules and regulations and when higher management is not following corporate governance then lower managers are the followers of the upper management. The followership within an organization is vertically integrated from lower management to upper management; thus, except for a few employees, the destructive leadership will cause the emergence of fraud and followership will create organizational corruption. Meanwhile, this can be exemplified with the case of Enron in which managers' objectives were aligned with personal benefit and benefit of followership for which earnings management and ineffective accounting reporting method was adopted and sustained for a great period (Dibra, 2016; Eckhaus and Sheaffer, 2018). Enron's case has been critically analysed scholars and some of them have concluded that the fall of Enron is only attributable to the leadership of the organization. Therefore, erratic behaviour among the manager's has been found to be associated with the destructive behaviour which leads to fraud and increases followership that leads organizational corruption vertically and horizontally.

followership that leads organizational corruption vertically and horizontally.

***Question 3 Does noncompliance to corporate governance and fraud promotes destructive leadership?***

The third question of the study was answered through the correlation, regression analysis and descriptive statistics of the factors. The question is intended to identify that does non-compliance to corporate governance and fraud in the organizational promotes destructive behaviour? To answer this, Pearson’s correlation results show that lazy and incompetent and ineffective communications have a negative association with non-adherence to corporate governance. This suggests that if the laziness and incompetency and ineffective communication prevails in the organization then this can increase the non-adherence or non-compliance to corporate governance in an organization. If the non-compliance to corporate governance rises, then the probability of the fraud also rises based on the fact that fraudulent behaviour is an expected outcome of the non-compliance behaviour and ineffective accountability system in an organization. As it has also been found that employees are followers of leadership and loopholes in leadership would be exploited at every possible moment for the personal benefit as does Case of Enron and during the Disney’s CEO, Michael Eisner tenure suggests, in which reflection of the destructive leadership decisions could be observed over the surface of the case study (Downes, Russ and Ryan, 2007; Eckhaus and Sheaffer, 2018).

Similarly, referring to the table 8 demonstrates descriptive statistics in which agreement level of lower management is measured; and the table shows that lower management is highly agreed at the inability to prioritize and delegate with mean score 3.48 (SD 0.75), ineffective in coordination and management of issue with mean score 3.63 (SD 0.87), acting in brutal bullying manner with mean score 2.91 (SD 0.74) respectively.

*Table 11: Descriptive Statistics*

Variable	Obs	Mean	Std. Dev.	Min	Max
2P lazy and incompetent	111	2.26	0.93	1.00	5.00
1P an inconsiderate tyrant	111	<b>2.74</b>	1.01	1.00	5.00

Inability to develop and motivate subordinates	111	<b>3.21</b>	0.59	1.80	4.80
Inability to understand and act on a long-term view	111	<b>2.88</b>	0.77	1.00	4.50
Exhibiting inconsistent, erratic behaviour	111	<b>2.88</b>	0.89	1.50	5.00
Inability to prioritize and delegate	111	<b>3.48</b>	0.75	1.00	5.00
Ineffective communications	111	2.65	0.92	1.00	5.00
Ineffective in coordination and management of issue	111	<b>3.63</b>	0.87	1.00	5.00
Telling people what they want to hear?	111	<b>2.83</b>	1.18	1.00	5.00
Playing favourites and other division behaviour	111	2.75	1.01	1.00	5.00
Lack of credibility within the organization	111	2.20	0.92	1.00	4.50
Inabilities to deal with interpersonal conflicts or similar situations	111	2.41	0.86	1.00	4.00
Ineffectual at negotiation and persuasion	111	2.34	0.93	1.00	4.50
Lying and other unethical behaviour	111	<b>2.68</b>	1.04	1.00	5.00
Acting in a brutal bullying manner	111	<b>2.91</b>	0.74	1.40	5.00

The table 11 shows that at lower management, respondents were agreed that managers being unable to prioritize, and the delegate is incompetent personnel not fit for the job could lead to ineffective decision making and affect the motivational level of employees at work. Similarly, a large portion of the employees also strongly agreed with mean score 3.63 (SD 0.87) that ineffective in coordination and management of issue could lead to destructive leadership in an organization. It is because the incompetency and ineffectiveness of the managers tend to promote fraudulent activities within the organization to achieve personal benefits. In addition, lower management also agreed with mean score 2.68 (SD 1.04) that implies that respondents were agreed that managers at an upper level have been lying and have unethical behaviour in an organization. Therefore, it can be interpreted that if lying and unethical behaviour among the upper management prevails that this can be an only cause of fraudulent activities and corruption in the organization that has destructive leaders an ultimate destination. Hence, it is determined that fraudulent

activities are present in the organization then this result of non-compliance to corporate governance; hence fraud can also be stated as a one of a major contributing factor to the promotion of destructive leadership in the organization.

***Question 4 How is fraud linked to destructive leadership?***

This question is being answered through exploring the answers to previous questions since this question is more subject in nature however, empirical support is also used to answer the question. The organizational fraud has been defined by Harris, and Jones (2018) as a deliberated act of misrepresentation in order to achieve an advantage or benefit over the organization. The fraud can be in any form such as earnings management, disclosure fraud, organizational corruption, and making destructive decisions intentionally with the aim to gain the monetary benefit at cost of the long-term sustainability of the organization (Sadique and Bi, 2016). These explanations suggest in pursuance of personal gain fraudulent activities are undertaken and as per the Zona, Minoja and Coda (2013), destructive leaders consistently and deliberately work against the organizational goals by adopting volitional behaviour towards company and subordinates. The volitional behaviour is a state of mind or psychology of a person and/or can also be stated as mental ability of the people to adopt certain behaviours permanently in order to gain personal benefits (Brandebø et al., 2016). Therefore, it is evident that fraudulent acts directly associated with the destructive leadership since destructive leadership means going against the core objectives of the organization that is an extreme level of fraud within the organization. Furthermore, to further elaborate the link of fraud with the destructive leadership, answers to previous questions can be presented as potential evidence for the association.

For instances, managers' decision to act against the organization emerges with intention achieve personal interest for which non-adherence to the corporate governance could be observed within the organization. The regression test presented table 1 in question shows that exhibiting inconsistent, erratic behaviour positively influence the non-adherence to corporate governance, and this indicates that erratic behaviour leads to non-compliance with the corporate governance within the organization and promote fraud within the organization. Meanwhile, the answer to question reveals that non-adherence to corporate governance is influenced by lack of compliance with rules, ineffective investigations towards corruption and malpractices. Hence, in such situations, fraud is a common thing since no accountability promotes such activities within the

premises of the organization. Therefore, it is determined that fraud is associated with the destructive leadership leading inevitable risk to the sustainability of the organization.

#### ***4.1.6 Hypotheses Testing***

##### H1: Inability to develop and motivate subordinates represent destructive leadership significantly

The first hypothesis that destructive leadership causes the followers to be demotivated is accepted based on the fact that empirical findings in question 1 suggest that erratic behaviour has been affecting the non-adherence to corporate governance, means if the erratic behaviour in organization increases then this tends to promote the culture of non-adherence to corporate governance. It is because the inconsistent behaviour to follow the rules and regulations imposed by the bank affects fellow employees react and lack of seriousness from upper management would increase the chances of demotivation among employees and ultimately lower loyalty since employees would find it a politically influenced culture.

##### H2: Harassing employees / Acting in a brutal bullying manner affects the compliance of corporate governance and represent destructive leadership significantly

Furthermore, the second hypothesis that destructive leadership is represented by brutal bullying in the organization is also accepted as the rising level of demotivation among the employees would affect the loyalty of employees with the organization. This spreads vertically and horizontally where employees are affected by the irrational and unethical behaviour of management, and management is only focused on self-made interest to reap benefits as much as possible.

##### H3: Lack of credibility within the organization represent destructive leadership significantly

The third hypothesis of destructive leadership leads to lack of credibility is also accepted based on the fact that destructive leadership is an established or adopted style that is a consequence of prevailing low credibility in the organization. Similarly, it was also found while answering question 3 that lying and unethical behaviour is associated with fraudulent activities in the organization which is supporting the acceptance of fifth hypothesis.

##### H4: Acting in an insular manner relative to other groups in the organization represent destructive leadership significantly

The fourth hypothesis is rejected based on insufficient evidence. Meanwhile, if unethical behaviour leads to the emergence of fraudulent activities, then destructive leadership is an ultimate destination that is an extreme level of unethical behaviour. Hence, it is evident that destructive behaviour leads to unethical behaviour in an organization.

H5: Lying and other unethical behaviour affect the non-compliance/ adherence/ corporate governance (or represent destructive leadership) significantly

This hypothesis has partially been accepted whereby respondents have not highlighted that lying and other unethical behaviour directly affect the defiance of corporate governance or highlight destructive leadership as a whole or major factor.

H6: Exhibiting inconsistent and erratic behaviour affect the compliance of corporate governance significantly.

Furthermore, the sixth hypothesis destructive leadership causes organizational inconsistent and erratic behaviour through their followers and this hypothesis is also acceptable since it was found while answering question 2 destructive leadership is a consequence of unethical or erratic behaviour often leads to frauds including earnings management in which managers pursue their interest rather broader interest of the organization and this could be termed as a form of destructive leadership which is injected as a culture within the organization from lower management to upper management that could result in organizational corruption from the followership. Hence, the hypothesis is accepted that destructive leadership causes organizational corruption through their followers.

H7: Overly emotional with negative psychological characteristics of leader represent destructive leadership significantly

In addition to, the seventh hypothesis of the study was overly emotional with negative psychological characteristics of leader as a representative of destructive leadership and is also rejected.

H8: Non-compliance to corporate governance promotes destructive leadership

The last hypothesis of the study was non-compliance to corporate governance promotes destructive leadership and this hypothesis is also acceptable since it was found while answering question 3

that non-compliance to corporate governance is the result of laziness and incompetency followed by ineffective communication that rises chances of frauds and corruption due to absence of effective accountability system within the organization. Consequently, fraudulent behaviour is expected that is the result of non-compliance behaviour and also promotes destructive leadership within the organization.

Also, the study implied that destructive leadership promote the fraud and this hypothesis is also accepted since all questions answered above and acceptance of most of the hypotheses further supports that destructive leadership creates opportunities for fraud within the organization thus it can be stated that destructive leadership is positively related with the non-adherence suggesting that rising level of destructive behaviour in either direction would also influence the fraudulent activities within the organization in the same direction. Thus, the last hypothesis is also accepted.

*Table 12: Table of Hypotheses Assessment Summary*

Statement	Decision
H1: Inability to develop and motivate subordinates represent destructive leadership significantly.	Accepted
H2: Harassing employees / Acting in a brutal bullying manner affects the compliance of corporate governance and represent destructive leadership significantly.	Accepted
H3: Lack of credibility within the organization represent destructive leadership significantly.	Accepted
H4: Acting in an insular manner relative to other groups in the organization represent destructive leadership significantly.	Rejected
H5: Lying and other unethical behaviour affect the non-compliance/ adherence/ corporate governance (or represent destructive leadership) significantly.	Partially Accepted
H6: Exhibiting inconsistent and erratic behaviour affect the compliance of corporate governance significantly.	Accepted
H7: Overly emotional with negative psychological characteristics of leader represent destructive leadership significantly.	Rejected

#### **4.1.7 Summary of Results**

The purpose of this section was to investigate empirically association of destructive leadership and corporate governance to address the designed research questions. All research questions have been answered empirically with help of descriptive statistics, correlation and regression analysis; and it is found that destructive leadership emerges as non-adherence to corporate governance rises and there are multiple factors that influence the non-adherence behaviour within the organization. In addition to, it has been found destructive leadership and fraud within organization reduce the motivation of employees and negatively affects their loyalty due to inappropriate and unethical behaviour of leadership and that it also causes organizational corruption to rise as result. Meanwhile, the empirical findings also suggest that non-compliance to corporate governance gives gap to destructive behaviour to emerge due to the fact that organization lacks effective accountability system and that organization's managers are stronger and owners are weaker.

#### **4.1.8 Qualitative Analysis – Employee motivation, Organisational corruption and destructive leadership**

The qualitative research is designed to take an objective stand by making the outcome reflective of the situation on the ground about the research question. Subsequently, the interview questions are outlined in a manner that prompts the respondent to reply to give genuine and observatory response. This will make it possible to deploy the use of qualitative research strategies on the collected data.

As mentioned in the research methodology section, the researcher in this study has conducted semi-structured interviews to collect qualitative data and followed the technique of thematic analysis to interpret the findings of interviews. For data analysis, the researcher has made the use of NVIVO12, which allows the researcher to identify repeated patterns, themes and trends that emerge from the data collection. In order to examine different aspects of the research topic, the researcher has followed the triangulation approach by collecting the data from two different banks. This section of the study represents the analysis of interviews that have been conducted

from both Bank 1 and Bank 2. Moreover, this part of the study presents the findings of interviews that have been analysed through NVIVO 12 software.

#### ***4.2.1 Presentation of Findings***

In the following presented thematic analysis, different themes related to research questions reflecting interview questions are developed. As per the study carried out by Smith and Firth (2011), to make sure the precise interpretation of qualitative data, it is vital for a researcher to must identify common themes that emerge from data and categorise that data through coding in a manner that helps the reader to get the comprehensive understanding of the overall study. Some of the major themes that are discussed below are (1) level of employee motivation, loyalty and ethics in banks, (2) level of organisational corruption and role of destructive leadership and fraud, (3) existence of destructive leadership, (4) association between fraud and destructive leadership.

The author of this study attained findings recognised throughout the study and then summarised them in the given section. The project included four questions that focused on destructive leadership & fraud, followers' motivation levels, employee loyalty and ethics, organizational corruption, and noncompliance to corporate governance. The researcher identified themes for the given research classes prior to carrying out the interview and showcased the themes recognised in this study by the classifications below. The interviews were carried out till the data saturation was attained. Data saturation is explained by Akhtar (2006) as the point where additional data is called redundant and the study has the sense of closure. In the given study, it was concluded that the data saturation was attained when examples given by the respondents and stories told by them were exclusively same and theories and conclusions offered by the participants were not helpful to offer some new and insightful information. Hence, a closure point was reached and so the activity to carry out further interviews were stopped. In addition, the researcher of the study attained methodological triangulation by assessing all the provided evidence, explaining the data given on the evidence provided by the respondents of the study and by carrying out the study so upcoming researchers can carry out validation and re-performance. It was previously suggested by Ahmad, Malik and Humayoun (2010) that in order to validate recommendations and conclusions, one can do them through comparing the data, ranking them and then evaluating the visual illustrations from the data coding. Hence, it is also called as triangulation of methodology in the given study. The author of the study attained themes of the study through triangulation and affirmed similarities across the responses. The researcher also evaluated the historical background

of every respondent to create a deeper understanding of similarities to affirm the consistency of experiences.

***Theme 1 Level of employee motivation, loyalty and ethics in banks***

The aforementioned theme is developed to examine the level of employee motivation loyalty and ethics in both the banks that were under-researched. The main rationale of developing the above-mentioned theme is to comprehend the association between destructive leadership and employee level of motivation, loyalty and ethics. In this regard, several questions have been asked from the respondents during an interview. The interview questions were divided into different sections, in which the first three sections pertaining to the questions of employee motivation, loyalty and ethics.

The response from the leader 1 of bank 1 (1L1) shows;

*“There are no signs of destructive leadership as we try to implement what is mentioned in the Code in true spirit”*

This reflects the behaviour of a leader, who always carries out those practices that are mentioned in the company’s code of conduct to avoid any discrimination and follow the right patterns of leadership. The same respondent has shown high satisfaction over employee motivation and highlighted different techniques that have been undertaking to ensure the high level of employee motivation. As stated by 1L1

*“Yaaa! the motivational tools are salary increment and promotion activity, probably this helps them to motivate employees. Mmm.... I think these are some of the engagement activities, like a star gala and recognition award. Also, they give spot awards like iPhone and various trips so the employee put more efforts and try to win again and again”.*

The same respondent also reveals the positive signs of employee loyalty and ethics within the bank. Therefore, it shows that a leader by showing no signs of destructive leadership has abled to ensure a high level of employee motivation, loyalty and ethics. This implies that there is a

significant association between destructive leadership and the level of employee loyalty, motivation and ethics. This is also consistent with the findings of Einarsen, Aasland and Skogstad (2018), according to which destructive leadership not just negatively affects the effectiveness of the organisation, but it also tends to sabotage or undermine the motivation, satisfaction and well-being of employees, which eventually leads towards promoting unethical and fraud practices in the organisation.

Majority of the respondents from both the banks have rated the level of employee motivation and loyalty as high. However, the leader 2 of bank 1 (1L2) believes that the level of employee motivation is not as high as it should be, which is mainly due to the insufficiency of an initiative related to employee motivation. As 2L1 stated that

*“I would rate the initiatives for motivation a 3 out of 5. I wouldn't have the details to the annual budget for motivation initiatives. I don't think there is one and it's on the basis of as and when required”.*

On the other hand, the same respondent has rated level of employee loyalty in between 6 to 7 (10 being the highest). Furthermore, in response to the question related to employee ethics, the 1L2 has stated that “I think here there are no ethical awards”. This leads to discouraging the employees to follow ethical practices in the organisation.

With regards to the level of employee loyalty, motivation, and ethical practices, almost all the participants from both the banks have shown positive signs. The below table presents the frequency of all the interviewees referred to a high level of employee motivation, loyalty and ethics, during the interview.

*Theme 1: High employee motivation, loyalty, ethics*

<b>Participants</b>	<b>Interview Questions</b>	<b>Total Number of References</b>
1L1	1 to 13	4
1L2	1 to 13	5
1L3	1 to 13	4
1L4	1 to 13	3

1L5	1 to 13	5
1L6	1 to 13	4
1L7	1 to 13	5
1L8	1 to 13	3
1SBP	1 to 13	4
2L1	1 to 13	4
2L2	1 to 13	5
2L3	1 to 13	4
2L4	1 to 13	5

***Theme 2 Level of organisational corruption and the role of destructive leadership***

The second theme is related to the role of destructive leadership in influencing the level of organisational corruption. Section B of the interview questionnaire was related to corruption and financial fraud, the responses of which have been reviewed to identify repeated themes and concepts. In this regard, all these responses explain the level of organisational corruption that exist in both under-researched banks. As per the response of 1L5;

*“Banks take serious measures in reducing the level of organisational corruption. Both Sharia and Corporate Governance codes are very strict on that”.*

This shows that Islamic banks are strictly following both corporate governance and the principles of Sharia as strict rules to reduce the level of corruption within the organisation. Similarly, the respondents from other banks have also indicated the low level of organisational corruption, which is backed by the imposition of strict punishment rules for the ones who violate the company’s code of conduct related to corruption.

All the respondents highlight strong and effective leadership as one of the key determinants of corruption in the organisation. In this context, respondent IL4 hold the view;

*“Strong leadership foster the ability of banks to reduce the level of corruption from the organisation”*

This is also validated from the findings of Thoroughgood et al. (2018), according to which destructive leadership hampers the organisation ability to lessen the occurrences of corruption from the organisation. Thus, it is essential for organisations to must ensure the effectiveness of their leadership to achieve their desired objectives related to transparency and corruption. The responses of all the interviewees from both Bank 1 and Bank 2 have shown the low existence of corruption in banks, which is well supported by the role of effective leadership. This implies that the significance of effective leadership carries out huge importance for not just ensuring the smooth flow of different business operations, but also to safeguard the organisation from different threats like corruption that can make the negative impact on organisation performance.

The table presented below highlights the frequency of all the respondents who referred low level of organisational corruption in their interview.

<b>Participants</b>	<b>Interview Questions</b>	<b>Total Number of References</b>
1L1	14 to 23	5
1L2	14 to 23	4
1L3	14 to 23	5
1L4	14 to 23	4
1L5	14 to 23	3
1L6	14 to 23	4
1L7	14 to 23	5
1L8	14 to 23	4
1SBP	14 to 23	5
2L1	14 to 23	4
2L2	14 to 23	3
2L3	14 to 23	5
2L4	14 to 23	4

### ***Theme 3: Existence of Destructive Leadership***

The element of destructive leadership has become one of the major threat for organisations, which not just tends to determine the level of employee motivation and loyalty, but it affects the overall productivity of the organisation (Einarsen, Aasland and Skogstad, 2016). The third theme is related to the existence of destructive leadership in both under-researched banks. For that purpose, different questions have been asked from the respondents during the interview. Section D of the interview questionnaire was related to “Fraud triangulation and weakening of destructive leadership”. In this regard, several responses have been gathered which provides mixed results. In response to the question related to destructive leadership, 1L7 has stated that

*“I won’t let destructive leadership enter inside me”.*

This shows the commitment of a leader to discard the destructive style of leadership while performing different roles of leadership. Similarly, the responses of 1L1 also show the positive signs of effective leadership. As stated by 1L1

*“I always try to be a good exemplary leader and do not believe that pressurizing my followers, I can get best results. It will end up in discouraging employees ”.*

In response to another question, the respondent of 1L1 mentioned that

*“My style is positive, not negative”.*

This shows that the existence of destructive leadership is low. The interview responses from the first bank are also found out to be consistent with the results of the second bank. As per the response of 2L2, the bank possesses some effective leadership which plays a crucial role in accomplishing the main objectives of the organisation. In response to the question related to some negative aspect of leadership style, the respondent 2L2 stated that “I do not have negativity”. Furthermore, the same respondent has shown a high commitment to recognising as a good leader.

The negative impact of destructive leadership on the overall performance of the organisation is well-recognised in the existing literature (Neves and Schyns, 2018; Skogstad, Nielsen and Einarsen, 2017). Therefore, the high existence of a destructive leadership can be

considered as the major causes of organisation failure. In the context of this study, the responses of all the interviewees have shown no sign of destructive leadership. The responses of all the leaders from Bank 1 have shown no existence of destructive leadership. However, the response from the Auditor of State Bank of Pakistan has highlighted some downsides of leadership, which falls under the category of destructive leadership. While highlighting some of the downsides of leadership, 1SBP Auditor has mentioned that “Bullying, Harassment some of those types”.

<b>Participants</b>	<b>Interview Questions</b>	<b>Total Number of References</b>
1L1	33 to 42	3
1L2	33 to 42	6
1L3	33 to 42	4
1L4	33 to 42	6
1L5	33 to 42	5
1L6	33 to 42	3
1L7	33 to 42	5
1L8	33 to 42	4
1SBP	33 to 42	6
2L1	33 to 42	4
2L2	33 to 42	3
2L3	33 to 42	5
2L4	33 to 42	4

#### ***Theme 4: Association between Fraud and Destructive Leadership***

The aforementioned theme has been developed to address the last research question of this study, which is about examining the association between fraud and destructive leadership. In order to comprehend the association between destructive leadership and fraud, the researcher has asked several questions from the respondents. According to IL3;

*“Ummm.....recently, with the emergence of some high-profile cases of fraud around the world has increased the concerns of destructive leadership in a corporate world. In accordance with the same study, fraud, embezzlement and theft are some of the widespread issues in the current corporate environment, in which most of the leaders from different*

*levels of the organisation are found to participate in such behaviours. Therefore, due to rising cases of fraud, it is important for us to recognise the role of destructive leadership in promoting fraud within the organisation, and also must recognise the importance of effective corporate governance practices”*

In response to the questions related to above-mentioned them, the respondent 1L4 has reflected;

*“There is a significant association between fraud and destructive leadership”*

In response to the question related to the occurrences of fraud incidents within the organisation, the respondent 1L4 further highlighted different instances by stating;

*“Yes a few in the recent past but we have confidentiality concerns so I cannot reveal them, but our strong and effective style of leadership has enabled the organisations to address these issues, as leaders of the organisation have taken those measures that were in the best interest of the organisation”*

In this regard, the respondent 1L4 has been the chairman of the DAC committee, so the involvement of 1L4 as a leader has been significant in the process of investigation. In response to a question related to what actions that have been taken, the respondent replied:

*“We terminated their contract and recovering the amount”.*

Moreover, the same respondent has reflected the signs of carrying out the assertive style of leadership, which implies that if the leader carries out a positive intent than it will become easier for an organisation to deal with different issues related to fraud.

Similarly, the respondent 2L2 has also highlighted a few instances of fraud, which have taken place in the organisation. As being a leader of the firm, the respondent 2L2 has taken some important steps and measures that are in the best interest of the organisation. As stated by 2L2;

*“We recovered the amount and terminated the employment”*

This shows that the leader has taken a strong step by punishing the culprits and setting an example for other employees working in the organisation. Moreover, in replied to the questions about what measures have been executed to ensure that a similar incident of fraud does not occur in future, the same respondent stated that *“Implemented rigid maker/checker concepts”*.

The overall results of interviews show that effective leadership style holds huge importance for addressing the issues pertaining to fraud. As evident from the responses of interviewees that most of the leaders show positive signs of leadership style, which eventually reflects in their ability to effectively deal with the different cases of fraud. This is also found to be consistent with the study of Einarsen, Aasland and Skogstad (2016), according to which destructive styles of leadership are one of the major factors that promote fraudulent activities within the organisation.

Similarly, Forbes and Watson (2010) have also argued that destructive behaviour is consequence of stronger manager and weaker owner and this situation emerges when there are fraudulent activities and corruptions into the organization. Meanwhile, this does not only affect the image of organization but the employee’s motivation, level of loyalty is also lost by the employees due to fraud and destructive behaviour of the managers (Ciftci et al., 2019). Hence, Aasland et al., (2010) stated that it required for the firms to align the interest of managers with the interest of organization and same strategy has also been used by the large corporations to align interest of managers with the interest of shareholders. In this way, the managers work in best interest of organisation because they know their interest is aligned with the organization.

The below-presented table outlines the frequency of all the interviewees who referred to fraud with destructive leadership.

<b>Participants</b>	<b>Interview Questions</b>	<b>Total Number of References</b>
1L1	33 to 42	4
1L2	33 to 42	5
1L3	33 to 42	3
1L4	33 to 42	6
1L5	33 to 42	4
1L6	33 to 42	5
1L7	33 to 42	4
1L8	33 to 42	3
1SBP	33 to 42	5
2L1	33 to 42	3

2L2	33 to 42	6
2L3	33 to 42	4
2L4	33 to 42	3

**4.2.2 Summary of Results**

The overall results of qualitative analysis have provided some important insights about the destructive leadership and corporate governance. The themes are developed in accordance with all the research questions of this study. With regards to the first question of this study, the significant effect of destructive leadership and fraud has been found on the level of employee motivation, loyalty, and ethics. In this regard, the results of interviewee’s show that leaders with no signs of destructive leadership styles are able to manage a high level of employee motivation, loyalty and ethics. Similarly, the low occurrences of fraud within the organisation are also found out to be positively associated with employee motivation levels, loyalty, and ethics. On the other hand, as per the results of interviews, the positive and significant relationship has been found between effective leadership and the level of organisational corruption. The findings of interviewees suggest that those organisations that show no signs of destructive leadership are found to be free from organisational corruption. This shows that destructive leadership is one of the major determinants of organisational corruption.

The third research question of this study was related to the role of fraud and non-compliance to corporate governance in promoting destructive leadership. In this regard, the outcomes of interviews reveal that in both the investigated organisations, the level of fraud and non-compliance to corporate governance is found to be low, which also explains the low presences of destructive leadership in those under-researched organisations. Based on this it has been found that high occurrences of fraud and non-compliance to corporate governance might promote destructive leadership in the organisation. Lastly, the overall analysis of qualitative analysis highlights the significant relationship between destructive leadership and fraud. As per the findings of qualitative analysis, the presence of destructive leadership within the organisation can promote fraud. Majority of the leaders that have been interviewed are found to have an effective style of leadership, which enables them to effectively deal with different issues related to fraud. Therefore, it shows that the role of leadership carries out huge importance for reducing the incidence of fraud in the organisation.

The results of both quantitative and qualitative analysis of each research questions have shown a lot of consistency. The outcomes of quantitative analysis provide more factual information about the association between destructive leadership and non-adherence to corporate governance. On the basis of quantitative analysis, it has been found that a rise in non-adherence to corporate governance promotes destructive leadership in the organisation. Similarly, this is also found to be consistent with the outcomes of qualitative analysis, according to which both the under-researched organisations have strong compliance to corporate governance, which ultimately explains the presence of effective leadership. This shows that adherence to corporate governance can positively influence the style of leadership, whereas the non-adherence to corporate governance is likely to promote destructive leadership. This is also validated from the findings of previous studies. As mentioned in the study of Tshipa (2017), non-adherence to corporate governance means that there is no transparency, rules, and following code of conducts to carry out different business activities. This eventually leads towards increasing the cases of frauds within the organisation and also promotes the destructive style of leadership.

On the other hand, the results of quantitative analysis depict that high presence of destructive leadership in the organisation decreases the level of employee motivation, makes the negatively affects employee loyalty and also promotes unethical behaviour. Similarly, the qualitative analysis also shows the same outcomes pertaining to the role of destructive leadership in affecting the level of employee motivation, loyalty and ethical behaviour. On the basis of qualitative analysis, the organisations that have shown no evidence of destructive leadership have possessed a high level of employee motivation, loyalty and ethics. This is also consistent with the findings of Einarsen, Aasland and Skogstad (2016), as study mentions that destructive leadership emphasise more on their personal goals, as they tend to take those steps that can benefit them while side-lining the overall corporate goals.

This eventually reduces the level of employee loyalty and motivation towards achieving organisational goals. Conclusively, based on the overall analysis of both quantitative and qualitative analysis, it is evident that non-adherence to corporate governance plays a major role in promoting destructive leadership within the organisation, which is mainly due to the reason that these organisations possess less effective accountability system. This makes the managers of the organisation stronger and weakens the position of owners. Similarly, as per the study of Fotaki, Lioukas and Voudouris (2019), compliance to corporate governance not just ensures the right

implementation of accountability, but it also makes the significant influence on the leader's behaviour. This ultimately reflects on the performance of leaders and their followers. Therefore, it is important for organisations to must make sure the compliance to corporate governance throughout the organisation, in order to achieve desired business objectives.

Therefore, implications can be drawn from the above findings that organizations should promote the consistent behaviour of the employees given that it would emphasize the managers to adhere to corporate governance and avoid to adapt the destructive behaviour within the organization. Meanwhile, another important element found in the qualitative analysis is that there is insufficient motivation level within the employees that needs to be addressed on immediate basis to through intrinsic and extrinsic rewards. Similarly, the organisations need to eliminate the corruption from foundation since it is strongly associated with the destructive behaviour; hence for this purpose, the transparency, effective reward system and other benefits could reduce the level of corruption. However, stronger monitoring system must be employed to keep an eye on every employee and their activities within the organization.

#### **4.2.3 Conclusion**

This research focuses on leaders who force followers go astray from the ethical path and to engage in corruption and fraud in the banking sector. There have been many studies regarding destructive leadership and how it impacts the culture of the organisation, but very few have discussed in detail the follower boundary that, if crossed, results in conformity to the leader. After this, loyalty towards the organisation is compromised as followers seek to achieve their leaders' goals, leading to involvement in fraudulent and corruption activities, wherein followers dodge and trade off organisational loyalty.

The foregoing discussion has dwelt on the varying themes of corporate governance in banks, the role of persons in authority in the banking industry (Central Bank, board of directors, internal auditors and top management) with regard to whistleblowing, and the impact of destructive leadership as an enabler of fraud through the fraud triangle. Concerning the illustration of how destructive leadership links to the fraud triangle, it have been more instructive because the organisation chosen as a case study is a financial institution or a banking corporation. However, studies in developed countries where data are more transparent have shown that the regulation of the financial and banking system precludes the outright display of destructive leadership. For this

reason, a banking corporation was selected, although the fraud perpetrated in Enron was relevant, because it dealt with the false and misstated reporting of financial accounts.

The field of inquiry is vast, and much has not yet been explored; however, the foregoing discussion creates a suitable foundation upon which to conduct a study on the influence of destructive leadership for the perpetration of fraud. The financial sector of a developing economy such as that of Pakistan is unexplored territory for this type of academic study, and the gap in the research justifies this study as a significant and material contribution to the pool of literature on fraud in financial systems and the effect of destructive leadership.

## CHAPTER 5 - CONCLUSION

This chapter is considered as the concluding chapter for the entire research study. The purpose of this chapter is to briefly discuss and summarised the overall findings which have been extracted from the research. Besides that, the investigator of the study also discussed the implications of the study which illustrates the significance of the research and how it helps other researchers that will be conducting the research related to same research topic in the future. Apart from that, the contribution of the study in the domain of corporate governance in Islamic banking is also covered in this section along with the limitations of the study. Moreover, the investigator of the study is inclined to provide future suggestions in the form of recommendations for mitigating the impacts of destructive leadership on compliance in the Islamic banks of Pakistan.

### *5.1 Theoretical implications of the finding:*

In the current study, primary data was attained using mixed methodology i.e quantitative and qualitative research methodology. Online and anonymous questionnaire helped in getting honest and valid responses and numerical data also worked around by executing many settings provided by the SPSS software.

Destructive leadership is defined by the respondents of the study as the systematic and repeated attitude by the supervisor or the manager that discourages the efficacy, job satisfaction of the employees. This is the negative leadership that is steadily being researched in the context of given Islamic banking sector and is regarded as an abusive leadership. The findings of this study shows visible indications that destructive leadership is linked with the negligence of employee loyalty , suppress employee voice and also avoid employee honesty. For instance, abusive leadership where followers view their leaders to showcase blaming their followers, moral loss and abusive attitude but does not involve any physical connection, like arbitrary use of the power of leadership, petty-tyrant-oppressive behaviour. The findings of this study clearly shows that destructive leadership badly damages followers' motivation levels, employee loyalty and ethics. This is in line with the previous study by Forbes and Watson (2010) who showed that destructive leadership is an outcome of strong manager and weaker owners; where the strong managers can be those who are in charge of the management and decision-making body within the organization and execute their power in the company. Hence, the level of employee motivation is badly affected. Employees can be frustrated with the type of management in the organization (Okan and Akyüz,

2015). The findings revealed interesting facts that if the decision of managers / leaders are against the organizational mission, objectives and core values than this type of actions of managers lead to suspicious behaviour of employees and they exhibit unloyalty and corruption. This is an important implication of our study as it shows that suspicious behaviour of employees are due to the fact that they perceive the decisions of their managers are not in accordance with the core values, and secondly, such decisions are often influenced by personal benefits despite a greater influence of Board remains on the management (Kaiser and Craig, 2014). This clearly exhibits that destructive behaviour harms the leaders of the firm and the followers both by promoting followers to follow those goals that are not in line with the firm's goals and strategies. This assertion is also created on the previous study by Ahmad and Arafat (2020) who viewed destructive leadership as the type of leadership who violates the interests of the follower interest. The constructs of the destructive leadership can overlap with other poor and undermining variables like aggression of employees and counterproductive behaviour. This shows a particular form of the leadership. Hence, destructive leadership must be viewed as harmful attitude that is embedded in the process of leading people.

The respondents of the study, whilst answering research question i.e. how do destructive leadership and fraud along its followership create organizational corruption?, provided some interesting facts. As per one of the respondents, when destructive leadership is exercised in the workplace, it ends up in stealing firm's property. Eventually, this aspect leads to create organisational corruption. This is in contrast with the previous study by Aasland et al (2010) who stated that destructive leadership depart employees from stealing organisational property. Although, this finding is in line with the study by Acemoglu et al (2003) who argued that destructive leadership damages organisation and it is more accurate and meaningful to differentiate two manifestations of destructive promoting followers to continue with fraud activity and use destructive methods to affect followers than simply making the surface between the two targets of such leadership. This indicator of destructive leadership shows various processes-setting objectives for followers and behaving to affect followers to attain such goals and are most likely to have various estimators and results. Hence, this seems to add in the body of literature that destructive leadership is volatile attitude that can damage or is intended to damage the organisation; hence, a boundary should be drawn by the firm between the destructive leadership

that damages the organisation and the effective leadership that is needed by the company to avoid corruption.

The findings of this study provides unique contribution that majority of the destructive leaders' behaviour have different linkage with their followers with regard to employee loyalty, employee voice and their negligence with the organisational goals. This study shows that employees of Islamic banks reflected that their leaders have been indulged in some of destructive leadership in the past five years; therefore, it is crucial for the organisations to stay well-aware about the important relationship between the influence of destructive leadership behaviour and the subordinate behaviour and strives to establish pleasant and healthier workplace where workers feel to be treated with dignity and respect. Hence, this will create employee positive attitude and reduce turnover rates of banking sector.

### ***5.2 Theoretical contribution of the study***

The given study has important theoretical contribution and reveals that the Pakistan Islamic banking sector has been very interesting to reveal facts about destructive leadership and its implications in corporate governance mechanism. This study has been helpful to offer better understanding of the corporate governance in regard to agency theory in the Pakistani Islamic banking sector and if there is any enhancement required to deal with it. Next, the findings of this study adds in the body of literature and offers insightful information to other countries that have similar culture, political and ecological context. This study will help policy makers, decision makers, academicians , investors and researchers to make better choices about governance standards.

### ***5.3 Policy and practice implications***

In the given study, the researcher has recognised the need for various recommendations to the Board of Directors and Chief Auditing Executives, managers of the Islamic banks. The suggestions are based on the respondents' experiences and their knowledge about destructive leadership and corporate governance for the corporate governance and ethical standards. These mentioned practices are recommended as policy implementation suggestions;

- It is suggested that the upper management of the Islamic banking create a survey that assess their “tone-at-the-top” in the company. This will help them determine if required

governance culture is permeating in the company and offer them feedback about existing culture in the company.

- The upper management of Islamic banking can assess if the leadership's accuracy over the accounting and auditing process is adequate or not. The assessment can add evaluating technical training for employees and evaluating the culture of the bank to ascertain that every employee is adequately motivated to comply with organisational policies and procedures.
- The executive leadership can strengthen communication process, trust and team work between the upper management and subordinates. Communication should focus on improvement activities.
- It is also suggested that internal control mechanism should be strengthened to discourage destructive leadership through organisational strong corporate governance mechanism that follows governance guidelines provided by international accounting standards.
- The focus of Islamic banking should be on creating ethical leadership and promotes socially responsible activities that discourage its leaders to exercise harmful leadership approach.
- The internal monitoring program should be developed that offer timely feedback on performance of the leaders and subordinates. This can include process-level control system like monitoring activities at the line-of-business and organisational-level controls as tone-at-the-top culture.

#### ***5.4 Research Contribution***

This research focuses on leaders who force followers go astray from the ethical path and to engage in corruption and fraud in the banking sector. There have been many studies regarding destructive leadership and how it impacts the culture of the organisation, but very few have discussed in detail the follower boundary that, if it is crossed, than the results will cause in conformity to the leader. After this, loyalty towards the organisation is compromised as followers seek to achieve their leaders' goals, leading to involvement in fraudulent and corruption activities, wherein followers dodge and trade off organisational loyalty.

Another impact comes from compliance of corporate governance rules and this research dwelt on the varying themes of corporate governance in banks. This comprises the role of persons in authority in the banking industry including the Central Bank, board of directors, internal auditors

and top management with regards to whistleblowing, and the impact of destructive leadership as an enabler of fraud through the fraud triangle. Concerning the illustration of how destructive leadership links to the fraud triangle, it is prudent the organisation chosen as a case study is financial institution or a banking corporation. However, studies in developed countries where data are more transparent have shown that the regulation of the financial and banking system precludes the outright display of destructive leadership. For this reason, banks were selected, although the fraud perpetrated in Enron was relevant because it dealt with the false and misstated reporting of financial accounts.

The field of inquiry is vast, and much has not yet been explored; however, the foregoing discussion creates a suitable foundation upon which the research is conducted to study the influence of destructive leadership for the perpetration of fraud. In this regard, it is observed that the financial sector of a developing economy such as the economy of Pakistan is unexplored territory for this type of academic study, therefore, the gap in the research justifies this study as a significant contribution to the pool of literature on fraud in financial systems and the effect of destructive leadership. This research has effectively contributed to highlighting the gaps in literature while examining corporate governance and destructive leadership at length. It has also identified its impact on ethical practices in organization and motivation on employees. This will help organizations to improve and enhance their code of conduct and also highlight areas of improvement for the statutory bodies in formulation of code of corporate governance which in turn will help banks and organisations in ensuring compliance.

### ***5.5 Limitations***

This study has several limitations that could be considered and addressed in future research on this topic. First, the findings of this study are evaluated and assessed in the Pakistani context and it can be explored in other contexts also such as Asian or European context. For this cause, it might be interesting to conduct the study not only on the context of Europe, where there is an application of destructive leadership but also in other countries such as the USA in order to make a comparison among a different set of culture and population which can be a lead more improved generalisation of results of the study over larger sample group of organisations. Secondly, this study lacks another limitation where other corporate governance factors are not addressed such as ownership structure among executives. Therefore, it can be interesting to analyse how mutual monitoring impacts corporate governance and how it leads to social corporate social responsibility disclosure and

reduces corruption index. Third, some investigators also contend that there are other mechanisms of governance connected to the outside environment of the organizations such as the market competition for corporate control and the regulatory and institutional environment that must be referred to as they might influence the disclosed of corporate social responsibility. Lastly, the future investigation might also extend the time period of the research to ensure reliability and validity of findings, for example, we might examine the corruption disclosure from the perspective of the USA context also.

Lastly, leaders who have been interviewed may have not completely disclosed the information thinking that it would harm their reputation or that of their banks.

### ***5.6 Future research and recommendations***

This study makes a considerable contribution to the understanding of corporate governance practice in Pakistan and its role in influencing the firm's performance. While this study focuses on listed Islamic banks, it is also important to understand the corporate governance practice in the conventional banks and non-listed companies of Pakistan. The future research could be in the form of a comparative assessment of corporate governance practices between listed and non-listed companies and Islamic and conventional banks in Pakistan. This will offer an avenue to examine whether the practices are affected in a similar fashion or otherwise.

The research can make several suggestions for control of corruption and fraud in an organisation. For example, firms should have a larger board size. This is because larger boards might be additionally beneficial as they signify a broader group of stakeholders. Furthermore, greater boards have an improved advisory, monitoring, and supervisory role and this ability might counterbalance some features related to less efficient monitoring or lesser maneuverability. On the other hand, some studies reasons that smaller boards are competent to communicate, organise, and represent improved and higher interests of stakeholders and thus leads to a reduction in corruption and better transparency within the organisations. On the other hand, another suggestion which could be made is the induction of more outside directors. This is because it can also lead to higher disclosure of CSR activities of the firms and reducing corruption activities.

Another recommendation is strengthening and enhancing democracy of shareholders and stakeholders which helps to create an accountability and responsibility mechanism to address and combat corrupt practices within the organisations' board. Instead of simply having 'the right of recommendation', stakeholders vote for approving the performance of board from the past fiscal

period and appoint its associates. The Code of Corporate Governance in Pakistan must contain all elements identified in this research which are loose ends and are utilized for conducting unethical practices and / or fraudulent activities. The central bank and SECP must ensure that the Code is revised by adding various destructive leaders' traits which are part of this research.

For future research it can be recommended that along with increasing the sample and context of existing research to European and Asian context. This is to include quantitative aspects also in the research. This provides a more informed basis for establishing the reliability and validity of quantitative findings. This is because qualitative analysis allows comparison and contrast primary findings with findings of other researchers which build reliability and accuracy of quantitative results of the study. Furthermore, there is a need to observe more traits of destructive leadership which can have an impact on non-compliance of Corporate governance in the banks. This study also highlights that in recent past the relationship and impact of DL and CG has not been studied in conjunction with each other and its effect on fraudulent and unethical practices. Therefore, many leaders and supervisors are not aware of the impact because in the Code of Corporate Governance of Pakistan which organizations follow the exclusive conduct and role of leaders / managers is not clearly defined. This research would be shared with the State Bank of Pakistan for seeking related guidelines for the banking system.

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## **Appendices**

### ***Appendix A: Interview Questions from Top Management, Auditors***

#### **Questions to be asked from Leaders, Auditors, Board Members, Central Bank Auditors**

This interview is a component of a research study to help understand how various organizations' management handle ethical, professional, corruption, employee loyalty, fraud web and employee motivation behaviours. I appreciate you for taking your time to provide the information. Please note that your answers will be treated with utmost confidentiality and respect. If you have any inquiry concerning the questionnaire, feel free to contact me through any channel.

#### **Evaluation Criteria**

The research project is designed to take an objective stand by making the outcome reflective of the situation on the ground about the research question. Subsequently, these questions are outlined in a manner that prompts the respondent to reply to give genuine and observatory response. This will make it possible to deploy the use of qualitative, analytical and correlational research strategies on the collected data. The analytical aspect of the evaluation strategy is meant to unearth the underlying issues concerning destructive leadership with an organization. The correlational part is, on the other hand, included to help researcher to relate the facts provided, by the respondent, on the destructive leadership questionnaire with the hypothetical situation in reality covered in staff questionnaire.

The research will be done by interviewing to make it convenient for participants to analyze the questions and provide relevant and truthful feedback. It will also be conducted following the laid down guidelines. No confidential information, regarding the company or the respondent, will be shared with the unauthorized person(s) to the study. Any response provided will be treated with utmost respect and no backlash towards the participants. The questions have been formulated in line with destructive leadership concept stipulated in the references below.

<b>Name (Optional)</b>		<b>Designation</b>	
<b>Grade</b>		<b>Location</b>	
<b>Department</b>		<b>Age</b>	
<b>Experience (Total years)</b>		<b>Gender</b>	

**Section A:**

**Motivation**

1. How do you rank your initiatives to motivate the company employees under your watch?

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2. Provide instances when an employee(s) have performed beyond expectations as result of your employee motivation methods? State the methods.

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3. What is your annual budgetary allocation for employee motivation? Please give reasons why you think that the figure is adequate and how does it measure up to industry standards.

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**Employee Loyalty**

4. On a scale of one to ten, how loyal do you think that your employees are to your administration?

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5. Provide instances when employees have demonstrated unwavering loyalty to your administration.

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6. How does the loyalty reflect in job organization, reduced workplace disputes between the employees and the management?

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**Ethics**

7. Which ethical practices put your organization on par with the international ethical guidelines?

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8. How have you demonstrated a firm ethical stand in your organization in the last six months?

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9. Has the company won any ethics-related awards? If yes, give the name of the award and the year it was received. If no, please explain why?

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10. How broad is the scope of your organization's ethical code of conduct?

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11. Does it offer protection against abusive supervision and workplace bullying incidents?

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**Motivation, Employee Loyalty and Ethics**

12. At a Board level how important is it to know that the employees are loyal, motivated and perform their duties ethically ?

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13. During an audit of a bank do you investigate any unethical act or unloyalty demonstrated by the leaders of that bank ?

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**Section B:**

**Corruption and Financial Fraud**

14. Do you have control over the financials of the firms/department?

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15. Are the checks and balances concerning the organization's finances shrewd enough to avoid management of funds?

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**Opportunity**

16. Do you take responsibility for any incidents of misappropriation of funds or do you blame it on departmental heads? (Base your answer on historical information t regarding financial malpractices.)

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**Rationalization**

17. Have you ever showed favoritism when awarding company tenders? (Answer by noting how competitive your procurement process has been in the last six months or more.)

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18. Are the firm's financial records audited by one of the big 4?

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19. Have you ever made any attempts to avoid tax by hiking the cost of company projects?

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20. Have you ever opposed change for an overhaul of firm's financial system?

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21. Do the company's stakeholders believe in your ability to deal with financial malpractices effectively? (Provide an instance that when you have received accolades for dealing with corrupt practices)

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22. How strictly is your firm's corruption-related code of ethics followed?

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23. Givean recent examples of financial malpractice cases and explain how you dealt with incidents to improve the company's general well-being?

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**Section C:**

**Corporate Governance**

24. Is Code of corporate governance being followed as part of in-house policy?

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25. How do your corporate governance skills are affected by the company's overall work-culture?

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26. Are there any corporate governance challenges that the company is presently facing? (List if any.)

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27. Give instances when your corporate governance skills have enabled you to see the company through trying times.

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28. What is your corporate governance stand on corruption, incompetence, and ethical issues?

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29. How do you gauge the effectiveness of your corporate governance framework?

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30. Is the framework supported by Human Rights issues as well as environmental and legal aspects of the country's constitution?

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31. Who evaluates your corporate governance performance and which criteria are used to do so?

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32. Are you on any record for having violated the company's code of corporate governance?  
(Answer yes or no.) How?

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**Section D:**

Fraud Triangle and Weakening of Destructive Leadership

33. Has the company ever experienced a fraud incident of any scale? (Answer yes or no.)

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34. Who carried out the investigations to verify the damage instigated by the fraud?

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35. Was the investigative authority granted an autonomous platform to uncover the root of the fraud?.

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36. Were you involved in the investigations in any way as a leader in the firm?

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37. What actions did you take against the culprits?

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38. What measures did you execute to ensure that a similar incident of fraud does not occur in future?

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39. Does your leadership style have any downsides that may have adverse effects on the firm  
(Answer yes or no.)

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40. List some of the downsides?

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41. How do you purpose to deal with the negativity in your leadership style?

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42. How will the actions that you intend to take bound to protect you from developing the  
destructive leadership syndrome that may take you down along with the company?

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*Appendix B: Survey Questionnaire from Middle & Lower management staff*

**Questionnaire for followers on destructive leadership and CG**

This questionnaire is a component of a research study to help understand how various organizations' management handles ethical, professional, corruption, employee loyalty, fraud web and employee motivation. Note that your answers will be treated with utmost

confidentiality and respect. In case of any questions, feel free to contact me through any channel.

### **Evaluation Criteria**

The research questions lean toward corporate governance because they focus on leadership qualities of a leader who is deemed to be unfair to his or her employees. During the evaluation process, the researcher will subsequently identify questions that support conceptual framework research model about the research questions. The evaluation process will also pay attention to aspects of the questionnaire that provides non-parametric statistics during the quantitative analysis process that will rely on multiple regression concepts to determine the relationship between the leaders and the employees about the subject matter. The questions have been obtained from James Shaw's work "*a method for measuring destructive leadership and identifying types of destructive leaders in organizations.*"

The research project is designed to take an objective stand by making the outcome reflective of the situation on the ground about the research question. Subsequently, the questionnaire is outlined in a manner that prompts the respondent to reply to give genuine and observatory response. This will make it possible to deploy the use of analytical and correlational research strategies on the collected data. The analytical aspect of the evaluation strategy is meant to unearth the underlying issues concerning destructive leadership with an organization. The correlational part is, on the other hand, included to help researcher to relate the facts provided, by the respondent, on the questionnaire with the hypothetical situation in reality.

The research will be done online / manually to make it convenient for participants to analyze the questions and provide relevant and truthful feedback. It will also be conducted following the laid down guidelines. No confidential information, regarding the company or the respondent, will be shared with the unauthorized person(s) to the study (Shaw, 2011). Any response provided will be treated with utmost respect and no backlash towards the participants.

**Demographics**

Name (Optional)		Designation	
Grade		Location	
Department		Age	
Experience (Total)		Gender	

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

**Factor 1 making decision based on inadequate information**

Question: 1

Your line manager often make an immediate unthinking emotional reaction.

Question: 2

Your line manager pays enough attention to what really matter while taking decisions.

**Factor 2 acting in a brutal bullying manner**

Question 3

Your line manager put un-due pressure on the junior and the subordinate employees.

Question 4:

Your line manager has sadistic tendencies that push him toward enjoying seeing employees suffer in any way.

Question 5:

You have been bullied by your line manager or have seen him bully other employees.

Question 6:

Your line manager is open to criticism or he banishes anyone who does not see things his / her way.

Question 7:

Your line manager has to win every negotiation or augment with his / her juniors and subordinates.

### **Factor 3 lying and other unethical behavior**

Question 8:

Your line manager lies or shows signs of unethical behavior.

Question 9:

Your line manager takes credit of your achievements or and he/she does not congratulate people who perform exceptionally well.

### **Factor 4 Micro-managing and over controlling**

Question 10:

Your line manager trusts other people especially with sensitive projects?

Question 11:

Your line manager dominates every aspect of the company's management system?

### **Factor 5 not making expectations clear to subordinates**

Question 12:

You are often aware about what your line manager wants and try to think and act like him/her in order to get an assignment done.

Question 13:

Your line manager provides adequate level of supervision in all the company tasks.

**Factor 6 Ineffectual at negotiation and persuasion**

Question 14:

Your line manager has poor negotiating skills.

Question 15:

Your line manager is ineffective when it comes to persuading others.

**Factor 7 inability to deal with new technology and other changes**

Question 16:

Your line manager embraces new ideas and way of doing things especially with regard to technology.

Question 17:

Your line manager exhibits difficulty while dealing with technology.

**Factor 8 inability to deal with interpersonal conflicts or similar situations**

Question 18:

Your line manager often commits a serious breach of trust.

Question 19:

The line manager is extremely poor at dealing with personal or interpersonal issues?

**Factor 9 lack of credibility within the organization**

Question 20:

Your line manager has poor reputation in organization

Question 21:

Your line manager loses credibility with stakeholders

**Factor 10 playing favorites and other division behavior**

Question 22:

Your line manager takes side in an argument between two employees

Question 23:

Your line manager shows excessive favoritism toward other employees

**Factor 11 telling people what they want to hear?**

Question 24:

Your line manager sugarcoats or tells the superiors what they want to hear rather being realistic

**Factor 12 ineffective in coordination and management of issue**

Question 25:

Your line manager is an effective coordinator

Question 26:

Your line manager provides subordinates with information and resources successfully

**Factor 13 not seeking information from others**

Question 27:

Your line manager seeks his / her employees' opinion before making company decisions

Question 28:

If your line manager creates any blunder it stays as is forever

**Factor 14 acting in an insular manner relative to other groups in organization**

Question 29:

Your line manager has general interest of what's happening in the company and he / she cares more about other departments

Question 30:

Your line manager never bothers to stay updated regarding other departments

**Factor 15 ineffective communications**

Question 31:

The line manager exercises ineffective communicating skills

Question 32:

The line manager fails to communicate the core message very often

**Factor 16 not having skills to match the job**

Question 33:

The line manager possesses an elaborate set of skills that matches his / her job

Question 34:

Your line manager reacts to both good and destructive behavior in the same manner

**Factor 17 inability to prioritize and delegate**

Question 35:

Your line manager is able to take note of priorities and handle them well

Question 36:

Your line manager stands above board in work delegation

**Factor 18 Exhibiting inconsistent, erratic behavior**

Question 37:

The line manager shows unpredictable behavior

Question 39:

Your line manager exhibit opposite behavior in short span of time?

**Factor 19 Unwillingness to change mind and listen to others?**

Question 40:

Your line manager is a strong-head who just won't listen to what others are saying

Question 41:

Your line manager never bothers to know what subordinates are thinking

**Factor 20 inability to understand and act on a long term view**

Question 41:

Your line manager an expert at strategic planning

Question 42:

Your line manager often ignores the big picture

Question 43:

Your line manager adapts well to change

**Factor 21 inability to develop and motivate subordinates**

Question 44:

Your line manager has an idea about what it takes to motivate his / her members of the staff

Question 45:

Your line manager manages interpersonal skills poorly

Question 46:

Your line manager has standard company reward system

Question 47:

Your line manager understands strengths and weaknesses of his / her subordinate employees

Question 48:

Your line manager is efficient in developing subordinates

**Factor 1P**

Question 49:

Your line manager is a dictator

Question 50:

Your line manager is self-centered

**Factor 2P**

Question 51:

Your line manager is incompetent

Question 52:

Your line manager is lazy and lacks drive and energy

**Factor 3P**

Question 53:

Your line manager shows signs of irrational behavior

Question 54:

Your line manager is possessive with ideas and/or company possessions

**Factor 4P**

Question 55:

Your line manager takes matters lightly and shows careless behavior when handling important issues

Question 56:

Your line manager comes across as someone who upholds emotional intelligence

**Non adherence to cooperate governance**

Question 57:

Your line manager complies with the bank rules and regulations

Question 58:

Your line manager acts contrary to his / her instructions

Question 59:

He or she is usually one of the first people to break new rules.

Question 60:

Your line manager has a zero tolerance stands against corruption inside and outside the company.

Question 61:

Your line manager supports full investigations into the company's malpractices whenever they are suspected to have occurred.

Question 62:

Your line manager reacts to financial malpractices strictly.

*Appendix C: Corporate governance principles for banks*

Principle 1: Board's overall responsibilities

Principle 2: Board qualifications and composition

Principle 3: Board's own structure and practices

Principle 4: Senior management

Principle 5: Governance of group structures

Principle 6: Risk management

Principle 7: Risk identification, monitoring and controlling

Principle 8: Risk communication

Principle 9: Compliance

Principle 10: Internal audit

Principle 11: Compensation

Principle 12: Disclosure and transparency

Principle 13: The role of supervisors

*Source: Basel Committee on Banking Supervision (2015)*