

IMPACT OF ISLAMIC RELIGIOSITY, ISLAMIC ASSOCIATIONS, BIASED BEHAVIORS AND WORKING CAPITAL MANAGEMENT: EVIDENCE FROM OIC COUNTRIES

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**IMPACT OF ISLAMIC RELIGIOSITY, ISLAMIC ASSOCIATIONS,
BIASED BEHAVIORS AND WORKING CAPITAL MANAGEMENT:
EVIDENCE FROM OIC COUNTRIES**

Nadeem Iqbal, Zain- ul-Abdin Arijio, Sajid Iqbal

ABSTRACT:

Assessment of working capital management is mandatory to ensure managerial implication and decision making therefore the study contains an assessing role of manager's Islamic associations, religious sentiments and biased behaviors affecting working capital management in Islamic Banks of organization of Islamic countries. For empirical assessment positivist approach is incorporated by using systematic sampling in parallel to belief congruence and prospect theories. The results show the considerable differences among Islamic association of managers, their religiously factors and working capital management. Furthermore the results shows that Islamic association of managers and their religiously factors have significant mediating moderated impact on working capital management. The dire need is to enhance corporate culture in sample countries for better financial sustainability in the light of Islamic codes. The study provides valuable information for policy and decision makers.

KEYWORDS: Working Capital Management, Overconfidence Bias, Intrinsic-Extrinsic Religiously, Loss Aversion Bias, Islamic Affiliation.

1. INTRODUCTION

Assessing Islamic Religiosity, Islamic Associations, Biased Behaviors and Working Capital is necessary to perform decisional role in Islamic based

financial organization. The assessment of Islamic Religiosity, Islamic Associations, Biased Behaviors and Working Capital decreased the uncertainty in academia and organization as well. Therefore the intent of study is revealing the scope at multidisciplinary level containing on Islamic, behavioral and corporate finance categorically. All three disciplines of studies are addressing and fulfilling desires of knowledge in their domains since decades.

Various cognitive theories claim that during organizational practices managers are found as biased in daily life. And such behavior arises due to religious emotions, attitudes and beliefs¹. As main reason behind is manager's personality or psychology explaining their practices and decisions excused pinching corporate financial productivity². Moreover, in western context such biased behaviors including overconfidence, self-serving and anchoring behavior has significant impact on working capital of business sector. Similarly, religious beliefs and psychology also have significant link with financial practices and management³.

Such religious beliefs and behaviors are much diversified and also has a significant in financial concerned including working capital in Islamic nations as well⁴. Therefore, corporate financial sector have to set their objectives without any shuffling in profit acquisition mechanism. Usually

¹ Mohamad Al-Ississ, "The Holy Day Effect," *Journal of Behavioral and Experimental Finance* 5 (2015): 60–80.

² Scott J. Vitell, "The Role of Religiosity in Business and Consumer Ethics: A Review of the Literature," *Journal of Business Ethics* 90, no. 2 (2009): 155–167.

³ Nadeem Iqbal and Sajid Iqbal, "ENGLISH-IMPACT OF ISLAMIC EVENTS ON PAKISTAN STOCK EXCHANGE (KSE-100) RETURNS," *The Scholar-Islamic Academic Research Journal* 4, no. 2 (2018): 173–189.

⁴ Anwar Halari et al., "Islamic Calendar Anomalies: Evidence from Pakistani Firm-Level Data," *The Quarterly Review of Economics and Finance* 58 (2015): 64–73.

it becomes impossible due to contextual, behavioral and religious anomalies that are prone to be significant with managers' practices. These findings are found significant in Islamic nations with financial practices and decision making. Therefore, the Islamic banks managers are found in behavioral and religious traps made by their job routine and daily practices affecting performance to manager working capital⁵. Moreover, such religious beliefs and behavioral biases are one-dimensional in cross Islamic countries origins affecting corporate equity and branding⁶. Such behavioral biases including overconfidence, loss aversion, anchoring and self-serving biases affecting working capital management practices⁷. While, religious factors having significant impact on corporate banking performance are religious associations, beliefs, cognitive practices and other religious fundamentals⁸.

Thus, Islamic nations financial markets are mean variant and having generally equilibrium attitudes of respective operational staff at banks been clarifying that Islamic banks managers are less efficient to attain risk. Therefore, these countries are working with fragile banking financial system with lack of consistency in operations, less volatile transactions and maximum sensitivity is observed in routine transaction. Because

⁵ Sajid Iqbal, "Working Capital Management Antecedents Impact on Firm Specific Factors: A Ten Year Review of Karachi Stock Exchange," *International Letters of Social and Humanistic Sciences* 53 (2015): 107–111.

⁶ Nadeem Iqbal and Sajid Iqbal, "Investor Behavior & Fundamental Analysis: A Case of Karachi Stock Exchange Investor's," *International Letters of Social and Humanistic Sciences* 59 (2015): 85–88.

⁷ Vikash Ramiah et al., "A Behavioural Finance Approach to Working Capital Management," *The European Journal of Finance* 22, no. 8–9 (2016): 662–687.

⁸ Sarah Alhouti et al., "Consumer Reactions to Retailer's Religious Affiliation: Roles of Belief Congruence, Religiosity, and Cue Strength," *Journal of Marketing Theory and Practice* 23, no. 1 (2015): 75–93.

banking practices are Islamic than conventional designing managers behavior as biased to their practices than fundamentals. Secondly, in banking sector of Islamic countries several agent principal relationships are found biased on religious perspectives i-e religiosity, beliefs and holy thinking. So, to resolve these issues current investigation is aiming to assess impact of behavioral biases on working capital management of Islamic banks from OIC nations with mediating role of Islamic affiliation and moderating role of Islamic religiosity. Moreover, to attain this objectives study is answering following research questions, what is the impact of behavioral biases of Islamic bank managers on working capital management practices in OIC nations? What are the empirical evidences of Islamic religious behaviors of managers on working capital management? What importance is given to religious and behavioral rituals during working capital management of Islamic banking?

To answer the questions the study has taken theoretical support of belief congruence theory presenting baseline to evaluate religious beliefs, associations, similarities, attitudes and custom practices⁹¹⁰. Thus, valuing and likeness are two basic principles of congruence extending religious beliefs during bank practices building practice intentions of managers¹¹. Secondly, Prospect theory is also serving as theoretical perspective to this study. Because managers as humans are less efficient and more biased in practices didn't prefers to acquire growth opportunity due to risk and scarifies

⁹ Sonia Roccas and Shalom H. Schwartz, "Effects of Intergroup Similarity on Intergroup Relations," *European Journal of Social Psychology* 23, no. 6 (1993): 581–595.

¹⁰ Milton Rokeach, "Some Unresolved Issues in Theories of Beliefs, Attitudes, and Values.," in *Nebraska Symposium on Motivation* (University of Nebraska Press, 1979).

¹¹ Shaista Wasiuzzaman, "Religious Anomalies in Islamic Stock Markets: The Hajj Effect in Saudi Arabia," *Journal of Asset Management* 18, no. 3 (2017): 157–162.

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chance of higher returns with more financial utility. Therefore, individual practices and decisions in religious environment and observed around a referred point reshaping managers intentions to behave in religious way and as risk averse. Numerous studies concluded various outcomes¹² in this line of research whereas, still there is room for future research that recent study is intending to investigate manager's level psychology¹³ by covering their biased behaviors, in collaboration of their Islamic associations during their operational practices¹⁴. These practices are deepening down to working capital management of respective Islamic banks in this study, to assess such behaviorally Islamic proponents' that are contribution in organizational financial practices.

This study is contributing theoretically and empirically in a way because scarce studies are found to investigate these issues of biased behaviors, religiosity in practices and working capital management jointly. Recent study is presenting this issue and its solution as it is less highlighted before specifically in Islamic countries jointly by covering regional contextual gap. The main intent to of this study is to cover the OIC nation's practices in Islamic banking where there is lack of banking procedures claimed by previous literature promoting irrational banking and business practices. Hence, such lack of procedures are designing bank practices as

¹² Sajid Iqbal, Saima Nasir Chaudry, and Nadeem Iqbal, "Impact of Firm Specific Factors on Credit Risk: A Case of Karachi Stock Exchange," *International Letters of Social and Humanistic Sciences* 54 (2015): 140–143.

¹³ Sajid Iqbal, "Moderating Effect of Brand Awareness on Country of Origin and Brand Equity: A Study of DG-Khan & Jampur Consumer's," *International Letters of Social and Humanistic Sciences* 54 (2015): 137–139.

¹⁴ Vikash Ramiah et al., "A Behavioural Finance Approach to Working Capital Management," *The European Journal of Finance* 22, no. 8–9 (2016): 662–687.

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behaviorally and religiously biased affecting routine and long run performance¹⁵.

This research contains on five sections including section 1 as background, objectives and rationale, section 2 is about background and literature review, section 3 is presenting methods of investigation, section 4 is of empirical results and section 5 is presetting discussion of results, conclusions and implications.

2. LITERATURE REVIEW

In fields of study various biased behaviors are theoretically highlighted and explained and many of them are usually observed in corporate managers' practices like overconfidence behavior. This is the behavior that managers behaves more overconfidently that a desired normal level and stands barrier in corporate practices to acquire pulpy results. In other words, it is an unwiring belief, faith, cognitive pressure or personality presenting biased decisions affecting performance of business pursuits¹⁶. Thus, overconfidence bias is a behavior that leads bank managers to take unprepared decisions leading to financial shutdown and working capital management¹⁷.

In normal course of practices such managers are found self-serving – favoring gains to their selves and loss to system policies and practices

¹⁵ Shaista Wasiuzzaman, "Religious Anomalies in Islamic Stock Markets: The Hajj Effect in Saudi Arabia," *Journal of Asset Management* 18, no. 3 (2017): 157–162.

¹⁶ Marc Haber et al., "Influences of History, Geography, and Religion on Genetic Structure: The Maronites in Lebanon," *European Journal of Human Genetics* 19, no. 3 (2011): 334.

¹⁷ Syed Shah Alam, Rohani Mohd, and Badrul Hisham, "Is Religiosity an Important Determinant on Muslim Consumer Behaviour in Malaysia?," *Journal of Islamic Marketing* 2, no. 1 (2011): 83–96.

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originated from their poor professional decisions. These managers are prone to this behavior with consent in several cases¹⁸. And this behavior of self-serving originates financial decisions left on luck and their ultimate reward is quite harmful for any business or financial pursuit having significant consequences on working capital management¹⁹.

While, in case of poor results from these behavioral heuristic managers of Islamic starts to behave as loss averter because more loss is not entertained by them²⁰ having sound association in tax payment aversion²¹ obtaining stated sum of returns from exchange market securities significantly supporting to reference point fundamental of prospect theory called loss aversion bias affecting working capital.

Extending these biased behaviors there is significant associations of Islamic beliefs and practices²² specifically religious affiliation on religious grounds. Affiliation with religion is clear cut factor representing any religion from the world covering religious duties, morals, practices and ethics having significant impact on financial concerns in Islamic origins.

¹⁸ Sarah Alhouti et al., "Consumer Reactions to Retailer's Religious Affiliation: Roles of Belief Congruence, Religiosity, and Cue Strength," *Journal of Marketing Theory and Practice* 23, no. 1 (2015): 75–93.

¹⁹ Gordon W. Allport and J. Michael Ross, "Personal Religious Orientation and Prejudice.," *Journal of Personality and Social Psychology* 5, no. 4 (1967): 432.

²⁰ Marc Haber et al., "Influences of History, Geography, and Religion on Genetic Structure: The Maronites in Lebanon," *European Journal of Human Genetics* 19, no. 3 (2011): 334.

²¹ Muzammal Ilyas Sindhu and Fahim Waris, "Overconfidence and Turnover: Evidence from the Karachi Stock Exchange," *European Journal of Business and Management* 6, no. 7 (2014): 128–135.

²² José Carlos Pinho and Lurdes Martins, "Exporting Barriers: Insights from Portuguese Small-and Medium-Sized Exporters and Non-Exporters," *Journal of International Entrepreneurship* 8, no. 3 (2010): 254–272.

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Such religious affiliation has significant mediating association with biased behaviors of managers and working capital management in Islamic countries.

While, such extensive exercise of religious practices and continuity in Islamic affiliation make an individual stuck in religion all the time called religiosity fundamental comprehended by literature into two types i.e. extrinsic and intrinsic religiosity^{23,24}. Intrinsic religiosity is fundamental behavior found in managers where they grant religion is prime objective of living and job practices as a first priority²⁵. Such behavioral trap has significant effect on banks performances because managers with this behavior fail to explain or design new client base from existing and new bank products²⁶.

Moreover, extrinsic religiosity is psychological phenomena where Islamic bank managers are found inspired conditionally from religion²⁷ following principles of Islam as an guideline of job work as per working circumstance and client to client behavioral variation²⁸. In fact

²³ Syed Shah Alam, Rohani Mohd, and Badrul Hisham, "Is Religiosity an Important Determinant on Muslim Consumer Behaviour in Malaysia?," *Journal of Islamic Marketing* 2, no. 1 (2011): 83–96; Gordon W. Allport and J. Michael Ross, "Personal Religious Orientation and Prejudice.," *Journal of Personality and Social Psychology* 5, no. 4 (1967): 432.

²⁴ Gordon W. Allport and J. Michael Ross, "Personal Religious Orientation and Prejudice.," *Journal of Personality and Social Psychology* 5, no. 4 (1967): 432.

²⁵ Amro A. Maher and Sarah Mady, "Animosity, Subjective Norms, and Anticipated Emotions during an International Crisis," *International Marketing Review* 27, no. 6 (2010): 630–651.

²⁶ Nittin Essoo and Sally Dibb, "Religious Influences on Shopping Behaviour: An Exploratory Study," *Journal of Marketing Management* 20, no. 7–8 (2004): 683–712.

²⁷ Gordon W. Allport and J. Michael Ross, "Personal Religious Orientation and Prejudice.," *Journal of Personality and Social Psychology* 5, no. 4 (1967): 432.

²⁸ Scott J. Vitell, "The Role of Religiosity in Business and Consumer Ethics: A Review of the Literature," *Journal of Business Ethics* 90, no. 2 (2009): 155–167.

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disrespecting of such behaviors have harmed client sentiments resulted boycotts in various Islamic countries in last decade²⁹. Religion is considered as psychological factor have moderating influences on financial matters. For this reason, literature of study is suggesting following hypothesis to test and model of study are as follows,

2.1 Study Hypothesis

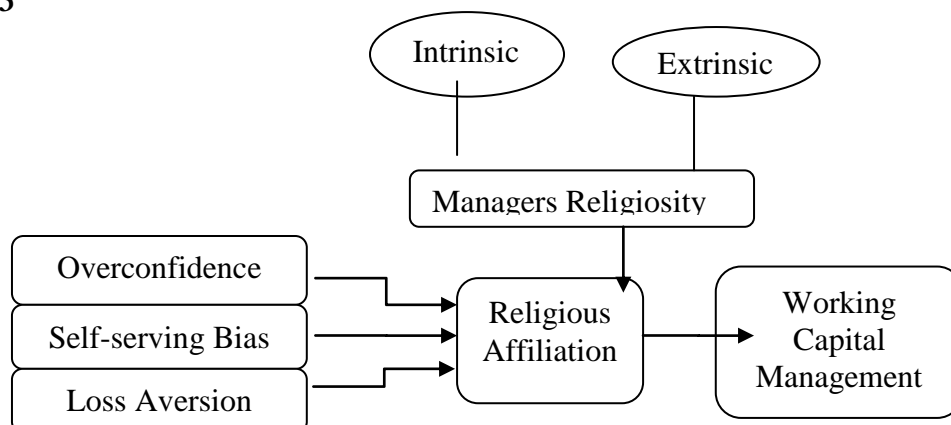
H1: *There is significant mediating effect of religious affiliation of bank managers between overconfidence bias, self-serving bias, loss aversion bias and working capital management.*

H2: *There is significant moderating effect of intrinsic religiosity of managers between religious affiliation and working capital management.*

H3: *There is significant moderating role of extrinsic religiosity fundamental of managers between religious affiliation and working capital management.*

2.2 Conceptual Model of Study

2.3



²⁹ Hashim Zameer et al., "Determinants of Dividend Policy: A Case of Banking Sector in Pakistan," *Middle-East Journal of Scientific Research* 18, no. 3 (2013): 410–424.

2.3 Variables of Study

In model of study, overconfidence bias, self-serving bias and loss aversion bias are independent variables, religious affiliation of managers with Islam is mediating variable managers Islamic religiosity is moderating variables with two dimensions' i-e intrinsic and extrinsic religiosity. While, working capital management is dependent variable of study.

3. METHODOLOGY OF STUDY

The frame of study is to assess the role of religious affiliation and Islamic religiosity between biased behaviors of managers and working capital management. Moreover, study intends to empirically assess this issue of OIC countries. The study is following positivist paradigm of investigation to assess rationale of empirical investigation with deductive research design to checking mediating impact of religious affiliation and moderating impact of religiosity fundamental. The population of study contains on Islamic bank employees of OIC countries. And the sample of study are containing on Saudi Arabia, Iran, United Arab Emirates, Bangladesh and Pakistan. While, systematic sampling method is used for inquiry with conditions that (i) managers of Islamic banks are selected for analysis (ii) working more than three years in Islamic Banks (iii) has a punctual religious faith.

The data is collected from manager's level staff of Islamic banks in five Islamic countries via questionnaire. To purify the data from removal of any biasness bank managers of Dhaka, Riad, Jidda, Madina, Theran, Abu Dubai, Islamabad, Rawalpindi and Lahore are selected randomly as per systematic sampling method to collect the data. For this purpose the random sampling has been used from sample identification and data collection. There are various hierarchical levels of managers as per nature

of work in Islamic banking. For this, managers dealing with clients are selected for this study to make data bias free, random and normal. The questionnaire of study is distributed to sample of 560 individuals and is responded by 290 managers with response rate of 52%.

A consent form and request for data collection was submitted to sample via email and from that 300 individuals responded favorably and 10 responses were found incomplete. From rest of the 260 individuals 170 individuals have not granted the consent for response acquisition from all the sample countries, 62 were not allowed to respond the scale due to their banking policies, 20 individuals have notified reservations are excluded from data collection process and 8 managers were non-Muslim and are excluded from study as per study sampling criteria. The entire sample of study is male gender wise.

Moreover, the scale of overconfidence bias, loss aversion, self-serving bias and working capital management are adapted from³⁰. The instrument of religious affiliation is adapted from³¹. And the scale of Intrinsic and extrinsic religiosity is taken by³². In these instruments overconfidence bias has 3 items, loss aversion bias has 6 items, self-serving bias has 8 items, working capital management has 12 items, managers religious affiliation has 7 items , intrinsic religiosity measure is with 4 and extrinsic religiosity

³⁰ Sajid Iqbal and Safdar Ali Butt, "Impact of Behavioural Biases on Working Capital Management of Manufacturing Sector of Pakistan: A Non Parametric Investigation Approach," *International Letters of Social and Humanistic Sciences* 55 (2015): 147–153.

³¹ Haytham Siala, Robert M. O'Keefe, and Kate S. Hone, "The Impact of Religious Affiliation on Trust in the Context of Electronic Commerce," *Interacting with Computers* 16, no. 1 (2004): 7–27.

³² Sarah Alhouthi et al., "Consumer Reactions to Retailer's Religious Affiliation: Roles of Belief Congruence, Religiosity, and Cue Strength," *Journal of Marketing Theory and Practice* 23, no. 1 (2015): 75–93.

measure is used with 3 scale items. The scale of study is confirmed by doing pilot testing of 60 respondents earlier.

In data analysis descriptive, reliability, validity, correlation, path analysis and goodness of fit tests are executed. In sample demographics qualification, sector, job title, religion, work experience, prayer punctuality is inquired for preliminary selection and removal of response biasness.

1. Results

This part of research paper presents results in details regarding Islamic religiosity, biased behavior and working capital management as follows,
Table 1 Reliability and Validity of Measures

	Composite Reliability	AVE
WCM	0.863	0.511
OB	0.798	0.583
SB	0.878	0.525
LB	0.564	0.535
RA	0.716	0.581
IR	0.804	0.514
ER	0.871	0.588

Here WCM is working capital management, OB is overconfidence bias, SB is self-serving bias, LB is loss aversion bias, RA is religious association, Intrinsic religiosity and ER is extrinsic religiosity. In above table.1 all the variables of study are reliable as alpha value greater than 0.71. And maximum variance explained by the constructs is 0.588 of

extrinsic religiosity less than the desired statistical criteria indicating data as useable for further analysis to draw findings from data inference.

Table 2 Correlation Analysis

	WCM	OB	SB	LB	RA	IR	ER
WCM	1						
OB	0.24*	1					
SB	0.37*	0.41	1				
LB	0.46*	0.49	0.53	1			
RA	0.21*	0.25*	0.27*	0.31*	1		
IR	0.17*	0.21*	0.22*	0.26*	0.29*	1	
ER	0.19*	0.22*	0.29*	0.34*	0.36*	0.41*	1

* Correlation Significance at P value (<0.05)

The table.2 is revealing the correlation analysis results that overconfidence behavior is significant as 0.24*, self-serving behavior as 0.37*, loss aversion behavior as 0.46*, religious affiliation significant as 0.21*, intrinsic as 0.17* and extrinsic affiliation significant as 0.19* ($p < 0.05$) with working capital management. Moreover, intrinsic religiosity is found significant with self-serving behavior as 0.22*, loss aversion bias as 0.26*, and with religious affiliations as 0.29*. While, external religiosity is also significant with self-serving behavior as 0.29*, loss aversion behavior as 0.34 and religious affiliations (inclinations) as 0.36 including intrinsic religiosity as 0.41*.

Table 3 Path Testing: Mediated Moderated Analysis

	Sample Original	Sig
OB -> RA	0.74	0.000*
SB -> RA	0.18	0.000*
LB -> RA	0.01	0.000*
OB -> WCM	0.07	0.1560
SB -> WCM	0.23	0.1140
LB -> WCM	0.32	0.1720
RA -> WCM	0.05	0.000*
OB -> RA -> WCM	0.16	0.000*
LB -> RA -> WCM	0.32	0.000*
SB -> RA -> WCM	0.16	0.000*
RAIR -> WCM	0.39	0.000*
RAER -> WCM	0.07	0.000*

The table.3 shows path analysis of study model as overconfidence, self-serving and loss aversion bias is significant with religious associations. Because all three biased behaviors of managers are insignificant with working capital management as $p > 0.05$ confirming mediation of religious association between based behaviors and working capital management. Therefore, religious association is directly found significant with working capital management as $p < 0.05$. Moreover, in indirect path analysis mediation paths of religious associations with biases behaviors and working capital are significant. It shows a confirming mediation such as Islamic banks managers being associated religiously has significant impact

on working capital management and decisions associated with. While, intrinsic extrinsic religious behavior of bank managers is significantly moderating between religious association and working capital management as RAIR -> WCM and RAER -> WCM. Hence, all the paths are resulting coherently with belief theory and prospect theory theorized in this study.

Table 4 Models Fit Index

	R^2	AVE
<i>WCM</i>	0.246	0.511
<i>OB</i>		0.583
<i>SB</i>		0.525
<i>LB</i>		0.535
<i>RA</i>	0.311	0.581
<i>IR</i>	0.176	0.514
<i>ER</i>	0.165	0.588
<i>Average Score</i>	0.2245	
$AVE \times R^2$	0.1376	
$GoF = V(AVE \times R^2)$	0.3260	

The table.4 is elaborating results of fit indexes where WCM contribution in model is 0.246, religious associations have 0.311, intrinsic religiosity has 0.176, and extrinsic religiosity is contributing as 0.165. The average model fit score is 0.2245 and the goodness of fit score is 0.3260 of recent

study models. Hence, the conceptual model is fit in analysis and results of study are significant to theory and issues of Islamic contexts.

4. CONCLUSION

The intent of study shows the scope at multidisciplinary level containing on Islamic, behavioral and corporate finance categorically for example the aim of this investigation results have answered the questions of study that behavioral biases of Islamic bank managers in OIC countries are mediating by religious associations in shape of Islamic school of thought as prime religion during job practices i-e working capital management. Very interestingly the Islamic religiosity as a fact has sound positive moderating impact on working capital management on Islamic bank managers because the managers are prone to be religious patients intrinsically and extrinsically. Therefore, hypothesis of study are observed significant and accepted by concluding that religiosity proponents whereas the religious associations of managers leads overconfidence, loss aversion, self-serving bias behaviors and affects working capital management of banks.

5.1 Policy Implications

Thus, there is dire need to train the managers so that they could differentiate fundamental beliefs from daily job practices. Corporate culture is seriously required than religious practices. While, data and time were major limitations faced during investigation. To develop corporate culture for promotion of rational banking practices in Islamic banks there is lack of banking codes that should be developed with proper compliance system. Investigating matter of dividend policy, leverage, Islamic mutual funds with religious association of key stakeholders in the light of Quran, Sharia and corporate practices can present interesting findings.

5.2 Future Research Directions

According to recent findings investigating corporate governance culture with biased decision making to assess working capital management practices can contribute novel findings empirically. Study also suggests contributing theoretically in prospect theory by adding new rooms of directions for stakeholders by assessing investors' sentiments with working capital management. Islamic work ethics and working capital management practice can also present novel contribution on interdisciplinary side of science.



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