Extended Abstract

1.Introduction

Organizational paranoia, as a dysfunctional organizational and psychological condition, leads employees to perceive their work environment as threatening, unpredictable, and untrustworthy. Such perceptions foster pessimism, suspicion, and defensive behaviors, which can gradually translate into unethical conduct within organizations. In accounting and financial reporting contexts, where professional judgment, ethical commitment, and transparency are essential, organizational paranoia may increase the likelihood of fraudulent behavior. One critical mechanism through which organizational paranoia may influence fraud is organizational loyalty. Reduced loyalty weakens employees' commitment to organizational goals and ethical standards, thereby increasing opportunistic and fraudulent actions. Despite the relevance of this issue, limited empirical evidence exists on the relationship between organizational paranoia, organizational loyalty, and financial reporting fraud. This study seeks to address this gap by examining the effect of organizational paranoia on fraud in financial reporting, emphasizing the mediating role of organizational loyalty.

2.Research Question and Hypotheses

Based on theoretical foundations and prior literature, this study addresses the following research question:
How does organizational paranoia influence fraud in financial reporting, and what role does organizational loyalty play in this relationship?
Accordingly, the following hypotheses are proposed:

- **H1:** Organizational paranoia has a positive and significant effect on fraud in financial reporting.
- **H2:** Organizational paranoia has a negative and significant effect on organizational loyalty.
- **H3:** Organizational loyalty has a negative and significant effect on fraud in financial reporting.
- **H4:** Organizational loyalty mediates the relationship between organizational paranoia and fraud in financial reporting.

3.Research Method

This study adopts a quantitative research design. Data were collected through a standard questionnaire and analyzed using structural equation modeling (SEM). The statistical population comprised accountants and financial managers of companies listed on the stock exchange in 2023. A total of 395 respondents were selected as the research sample using an appropriate sampling method consistent with SEM requirements. The validity and reliability of the measurement instruments were confirmed prior to hypothesis testing.

4.Results

The empirical findings indicate that organizational paranoia has a direct and positive effect on fraud in financial reporting. Additionally, organizational paranoia negatively affects organizational loyalty, while organizational loyalty is found to have a negative relationship with fraudulent financial reporting. The mediation analysis further reveals that organizational paranoia indirectly increases fraudulent behavior through the reduction of organizational loyalty.

5.Discussion and Conclusion

The results demonstrate that organizational paranoia undermines accountants' loyalty to their organizations, which in turn increases the likelihood of fraudulent financial reporting and ultimately reduces reporting quality. These findings highlight the importance of organizational psychological climate in shaping ethical behavior within financial reporting systems. From a theoretical perspective, this study contributes to the literature by integrating organizational psychology and accounting ethics, an area that has received limited empirical attention. From a practical standpoint, the findings provide valuable insights for managers and policymakers, emphasizing the need to identify and manage organizational factors that foster paranoia and weaken employee loyalty in order to prevent fraudulent behavior and enhance the quality of financial reporting.

Keywords

Organizational paranoia, Financial reporting fraud, Organizational loyalty, Accounting ethics, Structural equation modeling.