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HOW PRESSURE, OPPORTUNITY, AND CAPABILITY DRIVE FINANCIAL MISREPORTING: EVIDENCE FROM ETHICAL CLIMATE MEDIATION

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ABSTRACT:
This research aims to analyze the influence of Pressure, Opportunity and Capability on Financial Misreporting with Ethical Climate as a mediating variable. This research uses a quantitative approach, meaning that data can be calculated using statistical analysis as a test tool for hypothesis testing. The research method used is an exploratory study, aiming to clarify the causal relationship between the independent and dependent variables. The population in this study was all employees of Ahlia Cement Company. The sample selection technique used in this study was non-probability sampling through a purposive sampling. The data collection tool used was a questionnaire by Google Form. The analysis technique used in this study was Partial Least Squares (PLS) using SmartPLS software version 4.1.7. The results indicate that Pressure, Opportunity, and Capability significantly influence Ethical Climate, which in turn has a significant effect on Financial Misreporting. A weaker ethical climate increases the likelihood of financial misstatements and serves as a key mechanism through which pressure, opportunity, and capability affect misreporting behavior. These findings confirm the mediating role of Ethical Climate, highlighting that fraud-related factors operate through the organizational ethical context rather than directly. The study contributes theoretically by extending fraud theory through the integration of ethical climate as a mediating mechanism, and practically by emphasizing the importance of strengthening ethical

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climate, internal controls, and ethical leadership to mitigate financial misreporting.
Keywords: Pressure, Opportunity, Capability, Financial Misreporting, Ethical Climate.

كيف تدفع الضغوط والفرص والقدرات إلى التضليل المالي: أدلة من وساطة المناخ الأخلاقي

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المستخلص:
تهدف هذه الدراسة إلى تحليل تأثير الضغط والفرصة والقدرة على التلاعب بالتقارير المالية، مع اعتبار المناخ الأخلاقي متغيراً وسيطاً .تستخدم الدراسة منهجاً كمياً، أي أنها تعتمد على التحليل الإحصائي كأداة لاختبار الفرضيات .وتعتمد الدراسة على منهج استكشافي يهدف إلى توضيح العلاقة السببية بين المتغيرات المستقلة والتابعة، ويشمل مجتمع الدراسة جميع موظفي الشركة ألاهلية للأسمنت. واعتمدت الدراسة على أسلوب العينة غير الاحتمالية من خلال العينة الهادفة .وتم جمع البيانات باستخدام استبيان عبر نماذج جوجل . أما أسلوب التحليل المستخدم فهو تحليل المربعات الصغرى الجزئية (PLS) باستخدام برنامج SmartPLS الإصدار 4.1.7. وتشير النتائج إلى أن الضغط والفرصة والقدرة تؤثر بشكل كبير على المناخ الأخلاقي، الذي بدوره يؤثر بشكل كبير على التلاعب بالتقارير المالية .يؤدي ضعف المناخ الأخلاقي إلى زيادة احتمالية حدوث تحريفات مالية، ويُعدّ آليةً رئيسيةً تؤثر من خلالها الضغوط والفرص والقدرات على سلوكيات التضليل .تؤكد هذه النتائج الدور الوسيط للمناخ الأخلاقي، مُبرزةً أن العوامل المرتبطة بالاحتيال تعمل من خلال السياق الأخلاقي للمنظمة وليس بشكل مباشر، تُسهم هذه الدراسة نظرياً بتوسيع نطاق نظرية

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الاحتيال عبر دمج المناخ الأخلاقي كآلية وسيطة، وعملياً بتأكيد أهمية تعزيز المناخ الأخلاقي والضوابط الداخلية والقيادة الأخلاقية للحد من التضليل المالي.

الكلمات المفتاحية: الضغط، الفرصة، القدرة، التلاعب بالتقارير المالية، المناخ الأخلاقي.

BACKGROUND:

In the current era of globalization, the integrity of financial reporting is a key factor in economic decision-making. Financial information that is reliable, honest, and credible, in addition to being important for management decision-making, is a primary indicator for investors, regulators, and other stakeholders. It is basic information that needs to be provided for accountability, capital allocation, and trust in financial markets. Financial misreporting, which involves the deliberate or negligent release of false, misleading, or manipulated financial information, still persists as an issue, which is a menace to corporate governance and economic security globally. Financial misreporting may take different forms, including financial statement fraud, material misstatement as a result of fraud, material misstatement as a result of error, and material misstatement as a result of irregularity (Mesioye & Bakare, 2024).

The problem of financial misreporting is more pronounced in nations characterized by transitional or unstable governance systems. Libya, being an emerging economy characterized by political instability, is an exemplary case for examining the problem of financial misreporting. According to the Corruption Perceptions Index for the year 2024, the nation ranks 173rd out of 180 nations, indicating the prevalence of governance challenges, widespread corruption, and the lack of institutional checks and balances (Bernabem et al., 2025). This creates an environment characterized by high risk factors for financial misconduct, where weaknesses in internal control mechanisms result in the commission of financial misreporting and fraud, characterized by low probability of detection. Further, the Libyan economy is characterized by an oil-based economy, which is subject to fluctuations based on global market

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trends. This creates pressure for managers, who are under the obligation of ensuring the continued viability of the business, thereby creating an environment conducive for fraudulent reporting practices (Shodiq et al., 2025).

This is supported by the global experience, which has shown that financial misreporting has significant consequences. Accounting scandals, such as the Enron, WorldCom, and Lehman Brothers cases, are examples of the destructive effects of financial misreporting, which not only damage the reputation of companies but also result in significant financial losses for investors. In the Libyan case, while few studies have been conducted on corporate fraud, the experience in the state-owned sectors, as well as the banking sector, has shown widespread problems of earnings management, resource misallocation, and reporting inconsistencies. This, therefore, highlights the fact that financial misreporting in the Libyan case is not just an issue of technical errors in financial reporting but is also linked to structural and cultural factors within the organization (Narulita et al., 2024).

In order to understand the factors that lead to the perpetration of financial fraud and misreporting, researchers have traditionally used Cressey's Fraud Triangle theory, which states that for fraud to take place, there must be a combination of three factors: pressure, opportunity, and rationalization. Pressure entails external or internal factors that drive individuals to perpetrate fraud, while opportunity entails the organizational systems that provide individuals the chance to perpetrate fraud without being detected. Rationalization entails the mental process that individuals go through in order to justify unethical behavior that aligns with their moral framework (Roffia & Poffo, 2025).

This framework has been later expanded by Wolfe & Hermanson (2004) in the Fraud Diamond, which includes a fourth component: capability. This concept focuses on the fact that while some people might be pressured and presented with opportunities to commit fraud, it is also important to note that the individual in question needs to be capable of committing the fraud. This includes

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the individual's knowledge, skills, authority, and access in order to take advantage of the opportunities presented. In the case of transitional economies, such as Libya, the concept of capability is particularly relevant due to the fact that a small group of technically skilled individuals tend to dominate the critical areas of the financial systems (Lisa et al., 2025).

However, although the Fraud Triangle and the Diamond model offer a sound theoretical basis for understanding fraud behavior, these models may not always take into consideration the organizational ethical environment in which financial statement fraud may be perpetrated. Thus, it has been found that although knowledge of pressures, opportunities, and capabilities may be important for understanding fraud behaviors, it may not be sufficient for understanding organizational environments. Emerging research has found that another important factor that may affect the relationship between fraud determinants and fraud behaviors is the organizational ethical climate, which refers to shared perceptions about norms, values, and policies related to organizational ethics (Kogi et al., 2025). Thus, it has been found that organizational ethical climates may play an important role as a mitigating factor for fraud behaviors. The organizational ethical climate refers to both formal organizational influences, such as code of conduct statements and compliance policies, and informal influences, which may include leaders' behaviors (tone at the top) and organizational culture on ethics. Organizations with robust organizational ethical climates may be better positioned for creating a sense of accountability, reducing rationalization for unethical behaviors, and empowering employees to recognize and challenge opportunities for unethical behaviors (Ratmono & Frendy, 2022).

Organizations that value ethical practices, transparency, and accountability are less likely to experience earnings manipulation and financial misreporting. A low level of ethical climate, coupled with low oversight and high operational pressure, contributes to the risk of financial misreporting. Additionally, the presence of an ethical climate has the potential to enhance the reporting of misconduct,

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thereby acting as an operational tool for the early detection of fraud. Therefore, the presence of an ethical climate has the potential to act as a mediator between structural pressures, opportunities, individual abilities, and the risk of financial misreporting, thereby adding a contextual level that cannot be explained by traditional fraud theory (Pamungkas et al., 2025).

Despite such an increasing awareness, empirical studies specifically investigating the mediating effect of ethical climate in transitional economies, especially in Libya, are still limited. This is because most existing studies have concentrated on direct associations between internal controls, corporate governance, and fraud occurrence without incorporating the organizational ethical climate into the model. This is important because, in the case of Libya, the governance environment and political instability imply that, in the absence of an effective ethical climate, relying solely on formal controls may not be adequate in preventing financial misrepresentation Addressing this gap will provide various theoretical and practical contributions. From a theoretical standpoint, the inclusion of ethical climate in the Fraud Triangle will enrich the understanding of the interplay between organizational culture and individual and structural factors in the explanation of fraudulent behavior. From a practical standpoint, the implications of the Libyan organizational setting will provide corporate management, policymakers, and regulators with a comprehensive understanding of strategies to address misreporting, which can include the development of ethical training programs, the strengthening of tone at the top, the provision of safe whistleblowing channels, and the alignment of reward systems with ethical behavior. Through the integration of ethical climate, not only will the incidence of financial misreporting be mitigated, but the positive outcomes will also include the improvement of corporate image and market stability. Thus, this research study seeks to explore the mediating role of ethical climate in the relationship between pressure, opportunity, capability, and financial misreporting in Libyan organizations. The choice of Libya as the research setting makes a significant contribution to the existing body of knowledge, as it seeks to investigate the mechanisms

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of fraud in a transitional economy, which is prone to institutional weakness, corruption risk, and governance issues. This research study seeks to fill the theoretical and empirical voids and make a contribution to the existing body of knowledge.

LITERATURE REVIEW:

Financial Misreporting:

Financial misreporting refers to the inaccurate reporting of financial information, which may be done intentionally or negligently. Financial misreporting involves the inaccurate presentation of financial information, which may be through errors and the use of inappropriate accounting policies. The general definition refers to the occurrence of errors and the use of inappropriate accounting policies, including the omission and distortion of figures that may mislead external parties such as investors and creditors on how to make economic decisions (Campa et al., 2023). Financial misreporting may be through the use of inappropriate accounting policies, errors in measurements, and the use of misleading information. Financial misreporting may be legally and practically driven by internal motivations for achieving performance targets and compensation for management (Choi & Gipper, 2024). Financial misreporting may be through errors and fraudulent financial reporting. In accounting and legal practices, financial misreporting is considered significant as it may result in the undermining of the integrity of the capital markets and public confidence in the global financial reporting system. Financial misreporting may be considered as fraudulent when the intent to mislead report users is clearly evident (Achmad et al., 2023).

Pressure:

In terms of organizations, pressure is considered a condition where individuals or management experience an intense need to achieve certain targets or meet certain needs that are difficult to meet in an ethical and realistic way. This can be in terms of financial needs, unrealistic targets, or needs from various stakeholders, creating pressure that can result in psychological stress, motivation, and the

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need for shortcuts that can result in unethical conduct, including financial statement fraud (Siregar et al., 2026). Pressure can be from internal situations, such as financial stability, where there is a need to maintain the image of the organizations, as well as from external pressure from various parties that need certain achievements within a certain period of time (Amer, 2023). Pressure is normally considered an urgent need to meet certain targets that cannot be met without taking high risks or breaking the rules. In terms of the fraud triangle, pressure is considered the main factor that can trigger individuals to consider fraud, given that certain important targets, such as profit, bonus, or finance, cannot be met through ethical conduct (Oktami et al., 2024).

Opportunity:
Opportunity refers to the condition that allows fraudulent activities to take place as a result of loopholes and ineffective systems, controls, and supervision that exist, which gives individuals and management the platform to take advantage of loopholes with a low probability of being detected. In this case, opportunity comes from ineffective internal controls and supervision, which result from poor transparency and organizational structures that provide room for individuals and management to take advantage of loopholes and conditions without being objectively aware that they provide the platform for fraud to take place (Lario & Rohman, 2025). When the opportunity for fraud exists, even the least motivated individuals will be able to perpetrate fraud as the system provides them with the loopholes. The definition above represents the key concept of fraud theory and has been used extensively in various forensic accounting and auditing studies as it helps explain why fraud exists when loopholes are not closed and effectively monitored (Kassem, 2024). Opportunity is also defined as an objective, situational external condition that provides the opportunity for misconduct to occur, and may be created by a variety of sources, including inadequate supervision, lack of segregation of duties, or having access to sensitive information without proper

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controls, thus providing a means for people to take advantage of the loophole for their own gain (Alwehaib, 2025).

Capability:
Academically, capability is defined as the organization's ability or capacity to employ, blend, and integrate the organizational resources in order to accomplish the desired results in an effective and efficient manner. An organization does not own individual resources such as capital, technology, or labor; instead, it is the complex combination of organizational routines, processes, skills, and systems that enable the organization to behave in a dynamic environment (Trieu et al., 2023). Organizational capabilities, in the contemporary management literature, are defined as the company's capacity to employ and integrate the strategic resources in an appropriate manner in order to respond to the opportunities and challenges in the business environment, thus transforming it from an asset to a way of conducting business depending on the patterns of activity within the organization (Alkandi & Helmi, 2024). Capability is often seen as a collective manifestation of organizational activity that can rarely be broken down into a single contribution, as it is formed from the complex interaction of resources and interrelated organizational functions. This definition emphasizes that capability encompasses more than individual skills or single resources but rather an architecture of organizational capabilities that provides the capacity to act effectively in a competitive and changing context (Calhau et al., 2024).

Ethical Climate:
Ethical climate or organizational ethical climate, is a term that defines the collective perceptions of the members of an organization regarding practices, procedures, policies, values, and norms associated with ethical behavior in the workplace. It is the manner by which members of an organization perceive, as a collective, what constitutes appropriate behavior and how ethical situations are to be dealt with within the context of the organization, including decision-making and

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ethical dilemma-solving (Din et al., 2025). Ethical climate is an indication of the moral expectations that are generated by everyday practices, formal and informal rules, and the organizational cultural values that shape the behavior of individuals and groups in the organization, offering guidelines to organizational members on what is acceptable and unacceptable behavior in the workplace. Ethical climate is a perceptual construct that shapes the manner by which employees perceive organizational policies and the expectations of colleagues with respect to ethical behavior, and is a social instrument that helps individuals adjust to the moral environment created by the organization (Ainiyah et al., 2025). A good ethical climate implies that ethical behavior is encouraged, supported, and part of the organizational culture, which in turn facilitates the organization's internal decision-making and interactions. Ethical climate, therefore, is not merely a set of rules and guidelines, but a perception of the manner in which ethical values are implemented, followed, and expected by all members of an organization in their daily work activities (Cai et al., 2024).

Hypothesis and Research Model :

1. Pressure on Ethical Climate :

Organizational pressure, therefore, can be described as a condition in which an individual or a group feels that there are demands from various factors, which may impact their ethical perceptions and behavior in the organization. Ethical climate, therefore, can be described as a perception shared by people in an organization about what is regarded as ethical and unethical behavior, which may be a reflection of the values and norms shared by people in an organization that are adopted in addressing ethical issues and in the process of decision-making in the organization (Ellemers & Chopova, 2021). In a situation where there is an increase in organizational pressure, for instance, in a condition where there is pressure to deliver without considering the morality of the action, the pressure may impact the perception of employees in an organization regarding what may be regarded as ethical and unethical behavior, thereby degrading the

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ethical climate and changing the focus from ethics to delivery (Byun et al., 2025). This pressure can lead to individual adaptation that is more permissive in terms of ethical violations or conflict between ethics and job demands, thereby affecting the ethical climate in a manner that is not supportive of decision-making that is consistent with strong moral principles. Therefore, organizational pressure is a contextual factor that influences and molds the ethical climate by affecting how employees perceive the priority of ethics in day-to-day operations of the company (Torner et al., 2025).

H1. Pressure has an influence on Ethical Climate

2. Opportunity on Ethical Climate :

In terms of an ethical climate, opportunity relates to "the conditions within an organization that provide opportunities for members to make decisions and take actions, which may or may not be related to ethical aspects, and how an organization facilitates or constrains these actions." Opportunity, as an organizational construct, is not simply an opportunity definition but "includes opportunities for members to have access to resources, procedures, and structural opportunities to see, choose, and act on specific opportunities in both ethical and un-ethical situations." An organization where opportunities are clearly defined through transparent policies, procedures, training programs, and decision-making processes can help to build shared understandings of appropriate ethical behavior and can be part of an organization’s ethical climate (Pandey et al., 2024). On the other hand, the lack of ethical opportunities or the presence of hidden and unregulated opportunities can result in opportunities for unethical behavior, which in turn affects the perceptions of what is right and wrong in the workplace. Therefore, opportunities are a structural component in the workplace that affects the implementation of ethical values, norms, and standards, which in turn helps to mold or transform the ethical climate of the organization (Akmal et al., 2024).

H2. Opportunity has an influence on Ethical Climate

3. Capability on Ethical Climate :

In the organizational setup, the meaning of the term 'capability' is usually associated with the ability of the organization or individuals to

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adapt, integrate, or utilize resources or capabilities in order to respond to the needs of the environment in order for organizational objectives to be realized. The meaning of the term 'capability' is also associated with the concept of dynamic capabilities, which is the ability of the organization to adapt resources or capabilities to respond to the needs of the environment or the organization (Zabel & Brien, 2024). On the other hand, ethical climate has been defined as the perceptions of organizational members regarding practices, policies, and procedures in the work environment that involve an ethical component, that is, what is deemed right and wrong in the organization, and how the organization collectively handles these issues. It is a reflection of the ethical values, norms, attitudes, and behaviors that are acceptable within the organization, thereby creating a moral climate in the organization in which employees behave ethically in decision-making processes (Caldeira & Moro, 2025). When considered collectively, the capabilities such as skills, competencies, and adaptability of an organization also have a role to play in shaping and improving the ethical climate. This implies that the capability of an organization to train and develop employees' ethical competency will influence the collective perception of employees regarding the expected ethical standards. Organizations with high capability will be able to develop procedures and policies at work that align with ethical values, thereby improving the ethical climate and internalizing it among its members. Therefore, capability not only encompasses technical expertise but also the capability of the organization to promote ethical practices at work, which is evident in the organization's ethical climate (Chen et al., 2020).
H3. Capability has an influence on Ethical Climate

4. Ethical Climate on Financial Misreporting :
The ethical climate of an organization is defined as the collective perception of organizational members regarding what constitutes appropriate behavior and how ethical issues ought to be addressed in the context of organizational work (Din et al., 2025). This definition is based on the work of Victor and Cullen (1988), who conceptualized

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the theory of ethical climate, which holds that ethical climate is an expression of the norms, values, and customs that prevail in an organization with respect to moral judgments and appropriate actions (e.g., egoism, principle, benevolence) (Cai et al., 2024). In terms of financial reporting, therefore, the role of an ethical climate is to act as an indicator of the moral atmosphere within which accounting professionals and managers are likely to act and make decisions, with a strong and positive ethical climate placing significant emphasis on integrity and compliance with standards, while a weak or self-interest-oriented ethical climate provides opportunities for rationalizing unethical conduct, such as financial reporting (Ishwara et al., 2025). It is argued that this financial reporting ethical climate, through policies and practices, is likely to affect the degree to which an individual feels encouraged or allowed to report financial information honestly and accurately, rather than manipulating or distorting such information for certain purposes (Su & Hahn, 2022).
H4. Ethical Climate has an influence on Financial Misreporting

5. Ethical Climate can mediate the influence Pressure on Financial Misreporting :

Ethical climate refers to the collective perception of the members of an organization about what constitutes ethically correct behavior and how ethical issues are to be dealt with in the organization, including procedures, policies, and practices that have ethical undertones in the workplace (Hussam et al., 2021). Ethical climate is an indicator of a collective consensus about the ethical norms and standards that underlie decision-making and professional behavior in the organization. In this regard, ethical climate not only indicates formal ethical norms but also functions as a social mechanism that influences and enforces the expectation of ethical behavior among the members of the organization (Bernabem et al., 2025). As a psychological organizational-level construct, ethical climate is considered to affect how people react to stressful situations, such as the pressure to meet performance targets, stakeholder demands, or other organizational pressures that might otherwise lead to financial misreporting (Carlos

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et al., 2025). With a strong ethical climate that promotes high ethical standards, there are interpretive norms that help organizational members deal with such pressures by ensuring integrity in financial reporting. Hence, it has the potential to mediate the process by which pressures for financial misreporting are dealt with in individual ethical decision-making behavior (Lee et al., 2022).

H5. Ethical Climate can mediate the influence Pressure on Financial Misreporting

6. Ethical Climate can mediate the influence Opportunity on Financial Misreporting :

Ethical climate in an organizational context is defined as "the extent of agreement among members of a group regarding what is right and wrong and how ethical issues should be handled within that organization, i.e., what are the norms, values, and expectations about ethics that govern the behavior of members of that organization in response to a moral dilemma" (Meng & Pan, 2023). This definition of ethical climate in an organizational context has been used in literature related to organizational ethics as a means of understanding how the organizational environment impacts individual ethical choices and actions, including those related to financial reporting and violations of internal rules. Ethical climate as a theoretical construct represents the tone at the top and the organizational culture that either facilitates or constrains ethical behavior (Lu et al., 2023).

Regarding opportunity and financial misreporting, ethical climate acts as an intermediary that shapes the processing of opportunities to commit misreporting or fraud cognitively and morally in the organization. Opportunity, as depicted in the fraud triangle model, represents situations or conditions under which individuals in the organization are able to commit financial misreporting due to poor internal controls or lack of clear rules (Rachmawati et al., 2025). A good ethical climate shapes employees' attitudes towards the limits of acceptable behavior, thus preventing individuals from taking advantage of such opportunities to commit financial misreporting. Ethical climate is responsible for shaping how an organization

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responds to ethical dilemmas and can mediate (be involved in intermediary relations) between the emergence of opportunities and an individual's ultimate decision not to commit financial misreporting in organizations that have a good ethical climate, there are norms that prevent rationalization of opportunities to commit financial misreporting (Deng et al., 2023).
H6. Ethical Climate can mediate the influence Opportunity on Financial Misreporting

7. Ethical Climate can mediate the influence Capability on Financial Misreporting :
In terms of the relationship that exists between capability and financial misreporting (incorrect or manipulative financial reporting), the role of ethical climate, as a mediating variable, cannot be overstated, particularly in how it influences the translation of ethical values into financial reporting practices and accounting decisions within the organization. Ethical climate, from a conceptual perspective, is best described as the “shared perceptions among organizational members about what is right and wrong, and how to handle ethical issues within the organization, reflecting the overall ethical norms, policies, and practices of the work environment” (Al Halbusi et al., 2021). As a mediator between capability and financial misreporting, ethical climate moderates the association between technical capabilities or competencies, such as expertise in financial reporting, knowledge of accounting standards, and decision-making skills in financial-related areas, and the probability of financial misreporting. Therefore, in the presence of a strong ethical climate, which focuses on integrity, regulatory compliance, and moral obligation, the meaning of individual capabilities is oriented towards ethical and moral reporting. Consequently, the decision made by individuals with regard to financial reporting, despite their high level of capabilities, is subject to the effect of the ethical climate. Therefore, ethical climate can minimize the probability of financial misreporting (Suwaidan et al., 2022).

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On the other hand, a weak ethical climate, where ethical norms are vague or not enforced, may result in the utilization of individual capabilities in unethical ways, such as hiding poor organizational performance or manipulating financial information for personal gains. Therefore, ethical climate is a bridge between individual/organizational capabilities and financial reporting quality and the probability of financial misreporting, since it determines the utilization of individual capabilities in enhancing the quality of financial reporting or increasing the probability of financial misreporting (Ishwara & Mekonnen, 2025).
H7. Ethical Climate can mediate the influence Capability on Financial Misreporting

Framework :
The present study seeks to develop a conceptual model to investigate the impact of Pressure, Opportunity, and Capability on Financial Misreporting, with Ethical Climate acting as a mediator. The model is based on the theoretical perspectives of fraud-oriented theories, which suggest that financial misreporting is a product of the interaction between individualistic and organizational factors. Pressure is the financial and/or non-financial pressure imposed upon individuals, which might motivate them to manipulate financial information to achieve organizational and/or personal goals. As the pressure builds up, individuals might experience ethical conflicts, especially in a setting where the organizational environment is not very effective in providing moral guidance. Opportunity is the organizational setting that provides the platform for financial misreporting. These factors might not only facilitate the commission of the act, but they might also affect the perceptions of the employees regarding what is ethical in the organizational setting. Capability is the individual's ability to utilize the opportunities and cope with the pressure that might arise from the commission of fraudulent acts.
The model suggests that both Pressure, Opportunity, and Capability have direct and indirect effects on Financial Misreporting through Ethical Climate. Ethical climate was defined as "the shared

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perceptions of norms, values, and practices that guide behavior within an organization." An organization with a poor ethical climate may promote unethical behavior, whereas a strong ethical climate may constrain opportunistic behavior by emphasizing ethical norms and accountability. The proposed model suggests that Ethical Climate plays a significant role as a mediator between individual/situational factors and financial misreporting behavior. This means that despite the presence of pressure, opportunity, and capability, financial misreporting behavior would depend on the strength of the organization's ethical climate. This model will provide a comprehensive understanding of financial misreporting behavior by considering both behavioral factors and organizational ethical climate. The following is the framework that will guide this research:

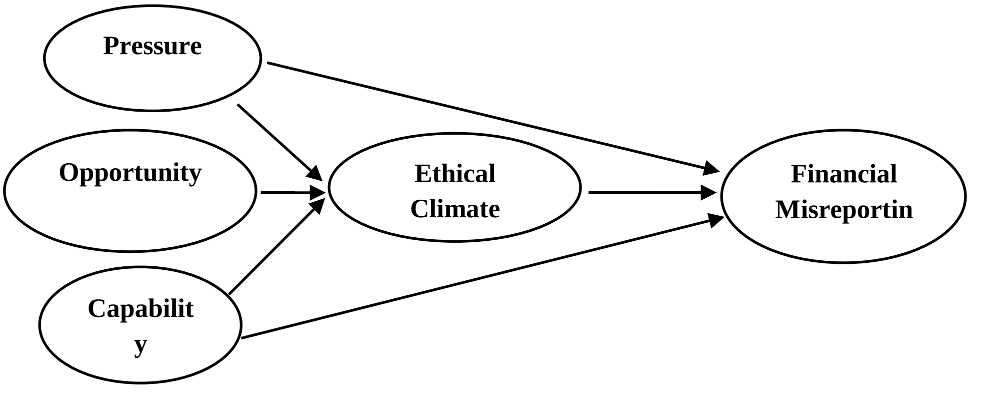

Figure 1. Framework

RESEARCH METHOD:

The research used a quantitative approach, which implies that data can be calculated using statistical analysis as an instrument for testing hypothesis development. The research approach used in this research is an exploratory approach, aiming to understand the causal relationship between independent and dependent variables. The population for this research consisted of all employees working at Ahlia Cement Company. The sampling technique used for this

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research is non-probability sampling with a purposive sampling approach with the following conditions:

1. The employees have more than one year of working experience
2. The willingness to take part in this research

The data collection for this research used Google Forms with measurements using a 5-point Likert scale with an interval between 1 "Strongly Disagree" and 5 "Strongly Agree." The analysis technique used for this research is Partial Least Squares (PLS) with SmartPLS software version 4.1.7. The relationship between indicators and latent variables can be divided into two types in PLS-SEM: reflective model and formative model. The reflective model implies that each indicator is an error measurement for the latent variable. Validity and reliability tests use a measurement model, while the structural model is used to test hypothesis development with a prediction model or commonly called causality test.

ANALYSIS DATA AND DISCUSSIONS :

This study used a sample of Ahlia Cement Company employees as respondents, assuming that everyone in the organization, whether directly or indirectly involved in financial processes, contributes to shaping the organization's ethical climate. The selection of all employees as the unit of analysis is based on the assumption that the concept of ethical climate develops from cross-functional and hierarchical interactions.

Table 1. Respondent Profile

Gender	n	%
Male	100	100
Age	n	%
< 30 years	11	11
30 – 39 years	32	32
40 – 49 years	40	40
≥ 50 years	17	17
Education	n	%

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Bachelor's Degree	**54**	**54**
Diploma	**36**	**36**
Master Degree	**10**	**10**
Work	**n**	**%**
> 1 - 4 years	**9**	**9**
11 – 15 years	**42**	**42**
5 – 10 years	**36**	**36**
> 10 years	**13**	**13**
Total	**100**	**100**

Source: SmartPLS Data Processing Results (2026)

Table 1 shows a demographic profile of the 100 employees that were surveyed. From the characteristics of each demographic factor, it was identified that all the employees that were part of the research were male, with a total percentage of 100%. This suggests that the research only focused on male perceptions regarding certain issues.

From an age perspective, it was identified that most employees were between 40-49 years old, with a total percentage of 40%, followed by employees aged 30-39 years old with a total percentage of 32%. This suggests that most employees were of productive age with a high level of maturity. However, only 11% of employees were aged below 30 years old, whereas 17% were aged 50 years old and above.

Regarding the educational levels of each employee, it was identified that most employees had a bachelor's degree with a total percentage of 54%, followed by employees with a diploma with a total percentage of 36%, whereas 10% of employees had a master's degree. This suggests that most employees have enough formal education that enables them to understand organizational procedures as well as formal reporting standards.

In terms of tenure, the results revealed that the category with the highest number of respondents was those with 11–15 years of experience, making up 42% of the sample. The category with the next highest number was those with 5–10 years of experience, making up 36% of the sample. The results suggest that the majority of the

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respondents have long experience with the organization, which means that they are in a better position to understand the work culture, control environment, and ethical climate within the organization. The profile of the respondents is considered important in the analysis of the relationship between pressure, opportunity, capability, ethical climate, and financial misreporting within the organization.

Analysis of Measurement Model Results :

The measurement model was tested to ensure that it meets the reliability and validity requirements for the use of the constructs in this study. From the results, it is clear that all the constructs meet the required standards for internal consistency, as shown by the reliability values. Moreover, convergent validity is confirmed by acceptable indicator loadings and sufficient values for average variance extracted, showing that the indicators adequately reflect the corresponding constructs. Finally, discriminant validity is supported, as each construct is distinct from the others. All these findings show that the measurement model is reliable and valid, thus suitable for structural model analysis.

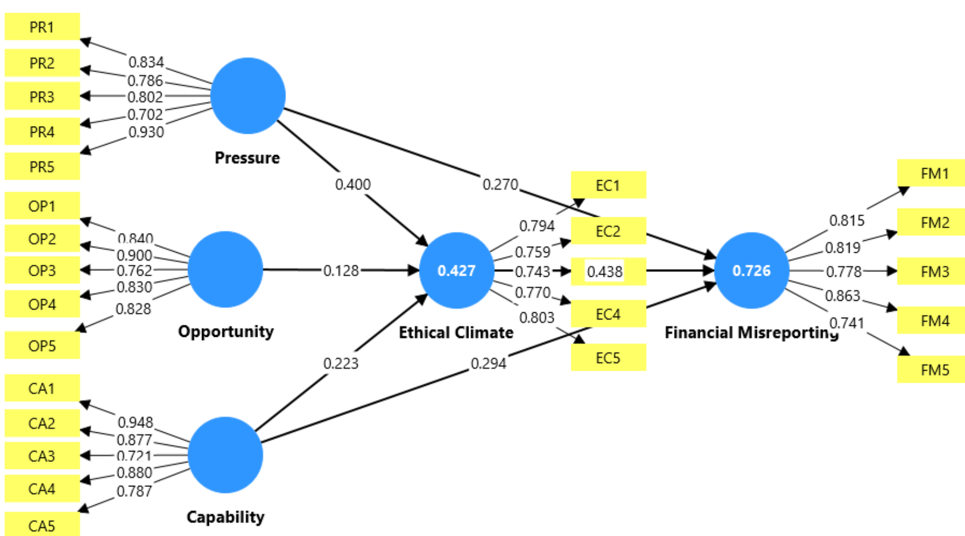

Figure 2. Outer Model
Source: SmartPLS Data Processing Results (2026)

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Validity and Reliability Test :

The validity and reliability of the measurement model were assessed using outer loading, composite reliability, Cronbach's alpha, and average variance extracted (AVE). The findings show that the values of outer loading for all indicators are above the recommended threshold, indicating that the indicators are reliable. The values of composite reliability and Cronbach's alpha for all constructs are above the minimum acceptable level, indicating that the constructs have high internal consistency. Moreover, the values of AVE for all constructs are above the recommended level, indicating that the constructs account for a sufficient amount of variance in the indicators. In general, the findings support that the measurement model meets the requirements of validity and reliability.

Table 2. Convergent Validity and Reliability Test

Variable	Indicator	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
Capability	CA1	0,948	0,899	0,912	0,716
	CA2	0,877			
	CA3	0,721			
	CA4	0,880			
	CA5	0,787			
Ethical Climate	EC1	0,794	0,833	0,833	0,599
	EC2	0,759			
	EC3	0,743			
	EC4	0,770			
	EC5	0,803			
Financial Misreporting	FM1	0,815	0,863	0,864	0,647
	FM2	0,819			
	FM3	0,778			
	FM4	0,863			
	FM5	0,741			
Opportunity	OP1	0,840	0,890	0,902	0,694

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	OP2	**0,900**			
	OP3	**0,762**			
	OP4	**0,830**			
	OP5	**0,828**			
Pressure	**PR1**	**0,834**	**0,870**	**0,874**	**0,663**
	PR2	**0,786**			
	PR3	**0,802**			
	PR4	**0,702**			
	PR5	**0,930**			

Source: SmartPLS Data Processing Results (2026)

Table 2 shows the findings for convergent validity and reliability for all constructs included in the measurement model. The findings show that for all indicators included in the model, their outer loading values are above the minimum threshold of 0.50. This implies that each indicator represents its respective construct satisfactorily. Additionally, the findings show that for the constructs of ability, ethical climate, financial misreporting, opportunity, and pressure, their Average Variance Extracted (AVE) values are above 0.50, thus implying convergent validity for these constructs. Reliability analysis used for this model included both Cronbach's Alpha reliability and Composite Reliability. The findings for this model show that for all constructs included in this model, their values for Cronbach's Alpha reliability are above 0.70, thus indicating reliability for this model. Additionally, for this model, all values for Composite Reliability are above 0.60, thus indicating reliability for this model.

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Table 3. Discriminant Validity

Variable	Capability	Ethical Climate	Financial Misreporting	Opportunity	Pressure
Capability					
Ethical Climate	0,624				
Financial Misreporting	0,77	0,895			
Opportunity	0,801	0,577	0,701		
Pressure	0,634	0,690	0,806	0,598	

Source: SmartPLS Data Processing Results (2026)

The discriminant validity test is shown in Table 3 using the Heterotrait-Monotrait (HTMT) ratio. The findings indicate that all HTMT ratios for the constructs capability, ethical climate, financial misreporting, opportunity, and pressure are below the suggested threshold of 0.90. This implies that all constructs are unique and measure a different concept in the research model. The findings support that the measurement model has satisfactory discriminant validity, implying that there are no concerns regarding multicollinearity or overlap among the constructs. Thus, the discriminant validity of all variables in this study has been satisfactorily established, implying that the measurement model is reliable for further structural analysis.

Structural Model Results :

Multicollinearity test :

The presence of Multicollinearity can be checked through the Variance Inflation Factor (VIF). An indicator is said to have Multicollinearity when the VIF is found to be above the standard level of 5. When the VIF is found to be above this level, it implies that the indicator is highly correlated with the other indicators in the model, and as such, it is redundant and cannot provide unique information to the model.

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Table 4. VIF Inner Table

Variable	Capability	Ethical Climate	Financial Misreporting	Opportunity	Pressure
Capability		2.415	1.675		
Ethical Climate			1.723		
Financial Misreporting					
Opportunity		2.264			
Pressure		1.588	1.824		

Source: SmartPLS Data Processing Results (2026)

Based on Table 4 above, the range of the inner VIF values of the structural model is 1.588 to 2.415, and these are below the threshold value of 5. This shows that there are no issues of multicollinearity in the predictor constructs of the model. This means that the relationships that exist between capability, opportunity, pressure, ethical climate, and financial misreporting can be interpreted without any biases that might come as a result of multicollinearity.

Coefficient of Determination Test (R^2) :

The coefficient of determination (R^2) is used as an evaluation criterion for the proportion of variance in the endogenous variable that can be explained by the exogenous variables included in the model. The value of the R-square reflects the level of the model's explanatory capacity. According to general criteria, an R^2 value of 0.75 represents significant explanatory capacity, an R^2 value of 0.50 represents moderate capacity, and an R^2 value of 0.25 represents low capacity. Table 5 presents the obtained R-square value, which reflects the level of capacity that the model developed in this research has for explaining the variance of the endogenous variables.

Table 5. R-Square (R^2) Value

Variable	R^2
Ethical Climate	0.427
Financial Misreporting	0.726

Source: SmartPLS Data Processing Results (2026)

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Based on Table 5, it can be seen that the r-squared value for the Ethical Climate variable is 0.427. This shows that the Ethical Climate variable can be explained in terms of the Capability, Opportunity, and Pressure variables to the extent of 42.7%, while the remaining percentage can be influenced by other variables that are not examined in the study.

The r-squared value for the Financial Misreporting variable is 0.726. This shows that the Financial Misreporting variable can be explained in terms of the Ethical Climate variable to the extent of 72.6%, while the remaining percentage can be influenced by other variables that are not examined in the study.

Hypothesis Test Results :

Hypothesis testing was employed as an analytical tool for verifying the relationships established in the research model. The level of significance for each hypothesized relationship was determined based on the path coefficient (β), t-value, and p-value obtained from the bootstrapping procedure. A hypothesis test result is considered statistically significant if the t-value is greater than 1.96 and the p-value is lower than 0.05.

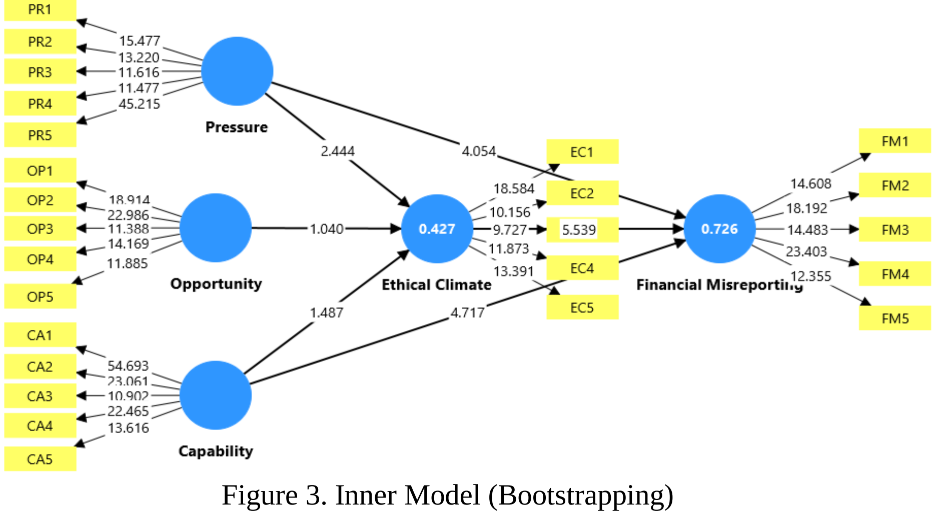

Figure 3. Inner Model (Bootstrapping)
Source: SmartPLS Data Processing Results (2026)

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Table 6. Path Coefficients Results

		Path Coefficients	t statistics	P Values	Information
H1	Pressure → Ethical Climate	0.400	2.444	0.015	Accepted
H2	Opportunity → Ethical Climate	0.128	2.040	0.009	Accepted
H3	Capability → Ethical Climate	0.223	2.487	0.007	Accepted
H4	Ethical Climate → Financial Misreporting	0.438	5.539	0.000	Accepted
H5	Pressure → Ethical Climate → Financial Misreporting	0.175	2.133	0.033	Accepted
H6	Opportunity → Ethical Climate → Financial Misreporting	0.056	2.023	0.007	Accepted
H7	Capability → Ethical Climate → Financial Misreporting	0.097	2.466	0.003	Accepted

Source: SmartPLS Data Processing Results (2026)

Hypothesis 1: Pressure has an influence on Ethical Climate, and the value of the path coefficients is 0.400, the value of t statistics is 2.444, and the value of p is 0.015. Therefore, it can be concluded that H1 is Accepted.
Hypothesis 2: Opportunity has an influence on Ethical Climate, and the value of the path coefficients is 0.128, the value of t statistics is 2.040, and the value of p is 0.009. Therefore, it can be concluded that H2 is Accepted.
Hypothesis 3: Capability has an influence on Ethical Climate, and the value of the path coefficients is 0.223, the value of t statistics is 2.487, and the value of p is 0.007. Therefore, it can be concluded that H3 is Accepted.
Hypothesis 4: Ethical Climate has an influence on Financial Misreporting, and the value of the path coefficients is 0.438, the value

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of t statistics is 5.539, and the value of p is 0.000. Therefore, it can be concluded that H4 is Accepted.

Hypothesis 5: indicates that Ethical Climate can mediate the influence of Pressure on Financial Misreporting, where the value of path coefficients is 0.175, the value of t statistics is 2.133, and the value of p is 0.033. Therefore, it can be concluded that H5 is Accepted.

Hypothesis 6: indicates that Ethical Climate can mediate the influence of Opportunity on Financial Misreporting, where the value of path coefficients is 0.056, the value of t statistics is 2.023, and the value of p is 0.007. Therefore, it can be concluded that H6 is Accepted.

Hypothesis 7: indicates that Ethical Climate can mediate the influence of Capability on Financial Misreporting, where the value of path coefficients is 0.097, the value of t statistics is 2.466, and the value of p is 0.003. Therefore, it can be concluded that H7 is Accepted.

Discussion :

Pressure on Ethical Climate :

The results of testing hypothesis 1 indicate that Pressure has a significant impact on Ethical Climate, as the calculated value satisfies the predetermined level of significance ($t > 1.96$ and $p < 0.05$).

Organizational pressure is defined as the state where an individual or a group feels the pressure of internal and external factors, such as performance targets, pressure from the superior, and pressure from the stakeholders, which can influence the ethical perceptions and behavior in the organization. Ethical climate is defined as the perception of what is ethical and what is not ethical within an organization, representing the norms, values, and moral standards that are collectively adopted and implemented as the basis for addressing ethical issues and making moral decisions in the workplace (Ellemers & Chopova, 2021). If organizational pressure is enhanced, for example, the pressure to meet organizational goals irrespective of the moral implications, such organizational pressure will, in effect, influence the perceptions of the employees regarding what is ethical and unethical, thereby deteriorating the ethical climate by changing the focus from ethical standards to the achievement of organizational

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goals (Byun et al., 2025). Such organizational pressure, therefore, has the effect of inducing individual adaptation, which leads to the adoption of permissive norms regarding the violation of ethical standards, thereby creating tension between ethical standards and organizational demands, thereby deteriorating the ethical climate, which becomes less conducive for decision-making based on high moral standards. Organizational pressure, therefore, becomes a contextual factor that influences the development of the ethical climate by modifying the perceptions of the employees regarding the importance of ethical standards in the organizational day-to-day practices (Torner et al., 2025).

Opportunity on Ethical Climate :

The outcome of hypothesis 2 testing indicates that Opportunity significantly affects Ethical Climate, as the value satisfies the significance level requirements ($t > 1.96$ and $p < 0.05$), therefore confirming H2.

In the context of ethical climate, opportunity is the situation in an organization that offers the chance for its members to make decisions and act, including those that could be linked to ethical issues. Opportunity in an organization is not a general concept of opportunity but also encompasses the availability of resources, processes, and structural opportunities that allow people to notice, decide, and act on certain options in ethical and unethical situations (Cai et al., 2024). When organizations provide clear opportunities through transparent policies, procedures, training, and decision-making processes, this helps to strengthen shared perceptions of what constitutes ethical behavior and what constitutes the boundaries of appropriate behavior in the organization, thus becoming a part of the ethical climate itself (Pandey et al., 2024). On the other hand, the lack of ethical opportunities or the presence of hidden and unregulated opportunities may lead to opportunities for unethical behavior, which in turn shapes members' perceptions of what constitutes right and wrong behavior in the organization. Therefore, opportunity becomes a structural part of the organization that shapes the application and understanding of

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ethical values, norms, and standards, ultimately helping to shape or change the ethical climate of the organization (Akmal et al., 2024).

Capability on Ethical Climate :

The findings on hypothesis 3 testing indicate that Capability has a significant influence on Ethical Climate since the calculated value is greater than the predetermined value for significance ($t > 1.96$ and $p < 0.05$), thus supporting hypothesis 3.

Capability is a broad term used to describe the capacity of an organization or an individual to adapt and apply their resources and capabilities to meet the demands of the environment to achieve the goals and objectives of an organization effectively. It can include such factors as skills, technical skills, employee competence, and the capacity of an organization to adapt to change and internal learning processes. This is also related to the concept of dynamic capabilities, whereby an organization is able to adapt its resources and competence to meet its changing needs (Zabel & Brien, 2024).

On the other hand, ethical climate refers to a set of perceptions that members of an organization share in relation to practices, policies, and procedures that have an ethical component in a work environment; that is, what is considered right and wrong in terms of behaviors and how issues of ethics are collectively addressed in that organization. Ethical climate is characterized by the ethical values, norms, attitudes, and behaviors that are accepted and expected in that organization, thereby creating a moral atmosphere that influences how individuals in that organization make their decisions and act in terms of ethics (Caldeira & Moro, 2025).

Collectively, these capabilities, such as skills, competencies, and adaptive ability, contribute to the development or strengthening of an ethical climate. Thus, an organization's capability, such as its ability to provide training and development for its employees' ethical competencies, influences a shared perception of what is ethically acceptable. Organizations that possess high capability can develop processes, policies, and practices that reflect ethical values, thus enhancing or strengthening an ethical climate and internalizing it

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within its members. Thus, capability does not only involve technical ability, but also the ability to internalize ethical practices within an organization, which is reflected in its ethical climate (Chen et al., 2020).

Ethical Climate on Financial Misreporting :

The findings of hypothesis 4 testing reveal that Ethical Climate significantly impacts Financial Misreporting, as the calculated value satisfies the predetermined significance level (i.e., $t > 1.96$ and $p < 0.05$). Thus, hypothesis 4 is accepted.

Organizational ethical climate is defined as the shared perception of organizational members regarding what is appropriate behavior and how to handle ethical issues in the context of their daily work (Din et al., 2025). The above definition is based on the work of Victor and Cullen (1988), who developed the ethical climate theory. According to this theory, ethical climate is an aspect of organizational culture composed of norms, values, and customs with respect to moral decisions and appropriate actions in an organization, such as egoism, principle, benevolence (Cai et al., 2024). In the financial reporting arena, ethical climate is a determinant of the ethical surroundings within which accounting practitioners and managers take financial reporting decisions; a strong and positive climate is characterized by integrity and compliance with standards, while a weak or self-interest-based climate may provide room for the justification of unethical acts, such as financial misreporting (Ishwara et al., 2025). This ethical climate, which is embedded in organizational policies, procedures, and standards, is perceived to affect the degree to which individuals feel encouraged or allowed to report financial information in a truthful and accurate manner, as opposed to manipulating or misrepresenting figures for certain reasons (Su & Hahn, 2022).

Ethical Climate can mediate the influence Pressure on Financial Misreporting :

The outcome of hypothesis 5 testing indicates that Ethical Climate is capable of mediating the Pressure on Financial Misreporting, as the

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statistical value satisfies the significance level ($t > 1.96$ and $p < 0.05$), thus accepting H5.

Ethical climate refers to the collective perception of the members of the organization on what constitutes ethically acceptable behavior and how ethical issues are to be addressed in the organization, including procedures, policies, and practices that have ethical undertones in the workplace (Hussam et al., 2021). This climate represents a collective consensus on the ethical norms and standards that underlie decision-making and professional behavior in the organization. Therefore, ethical climate not only represents formalized ethical standards but also represents a social process that shapes and enforces ethical behavior expectations among the members of the organization (Bernabem et al., 2025). As a psychological construct within an organizational context, it affects how individuals deal with stressful conditions, such as the need to achieve set performance targets or expectations from stakeholders, or other organizational conditions that might tempt an individual to misreport financial figures (Carlos et al., 2025). When an individual works within an environment with a robust ethical climate that supports high ethical standards, it sets an interpretive context that helps an individual deal with stressful conditions by being faithful with their financial reports. Hence, it can theoretically act as a mediator that explains how an individual deals with conditions that promote financial misreporting within their ethical decision-making behavior (Lee et al., 2022).

Ethical Climate can mediate the influence Opportunity on Financial Misreporting :

The results of testing hypothesis 6 indicate that the variable Ethical Climate can mediate the impact of Opportunity on Financial Misreporting, as the calculated value meets the predetermined criteria of significance, where $t > 1.96$ and $p < 0.05$.

Ethical climate, as it is used in the organizational setting, refers to "the perceptions that employees share about what is right and wrong, and how to handle ethical issues in the organization, that is, the collective norms, values, and expectations that govern the behavior of

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employees in the organization when they are faced with moral dilemmas" (Meng & Pan, 2023). This definition of the concept of ethical climate has been used in the organizational setting as a means of understanding the role that the organizational environment plays in the determination of the ethical decisions that are made at the level of the individual, such as the decision to engage in financial misreporting and to violate internal rules and regulations (Lu et al., 2023). As a theoretical concept, the idea of ethical climate is defined as the tone at the top and the formal and informal organizational culture that can foster or discourage ethical behavior in employees (Lu et al., 2023). In relation to opportunity and financial misreporting, ethical climate is a mechanism that affects the cognitive and moral processing of opportunities to commit financial misreporting and fraud. Opportunity, from the perspective of the fraud triangle model, is a condition or situation that allows individuals to commit financial misreporting due to inadequate internal controls or ambiguous guidelines (Rachmawati et al., 2025). A strong ethical climate impacts employees' perceptions of the limits of acceptable behavior, thus reducing the likelihood of individuals taking advantage of opportunities to commit financial misreporting. Ethical climate, therefore, is a determinant of how the organization handles ethical dilemmas and may act as a mediator between opportunities and a person’s decision to commit or refrain from committing financial misreporting. Organizations with a good ethical climate often develop norms that minimize the rationalization of opportunities to commit financial misreporting (Deng et al., 2023).

Ethical Climate can mediate the influence Capability on Financial Misreporting :

The findings of hypothesis 7 testing reveal that Ethical Climate can act as a mediator between Capability and Financial Misreporting, as the calculated value satisfies the predetermined significance level ($t > 1.96$ and $p < 0.05$), thereby supporting hypothesis 7.
In the context of the relationship between capability and financial misreporting (i.e., incorrect or manipulative financial reporting), the

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role of an ethical climate is significant as it acts as a mediator between capability and financial misreporting. Financial misreporting can be defined as incorrect or manipulative financial reporting. Ethical climate is an organizational aspect where an individual perceives or understands what is right or wrong within an organization and how to behave ethically within an organization. It can be defined as an abstract construct or an organizational aspect where an individual perceives or understands what is right or wrong within an organization and how to behave ethically within an organization. It can be defined as an abstract construct or an organizational aspect where an individual perceives or understands what is right or wrong within an organization and how to behave ethically within an organization (Al Halbusi et al., 2021).

Ethical climate, as a mediator between capability and financial misreporting, moderates the relationship between technical capabilities or competencies (such as reporting expertise, accounting standards knowledge, or financial decision-making capability) and the probability of misreporting. When the ethical climate of an organization is strong and focuses on integrity, regulatory compliance, and moral accountability, the perception of individual capabilities is likely to be channeled towards honest and transparent reporting practices. This implies that even when individuals possess high technical capabilities, their decisions on financial reporting will be shaped by the dominant ethical climate, and therefore, the ethical climate can mitigate the probability of manipulation and deliberate misconduct (Suwaidan et al., 2022).

On the other hand, a poor ethical climate, characterized by a lack of clarity or enforcement of ethical standards, may result in the exploitation of technical capabilities for unethical ends, such as covering up for poor performance or manipulating financial data for personal benefits. In this way, ethical climate serves as a mediator between individual/organizational capabilities and financial reporting quality and the probability of misreporting, as it determines whether the capabilities will be harnessed to improve reporting integrity or increase the risk of fraud (Ishwara & Mekonnen, 2025).

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CONCLUSION :

The objectives of this research are to analyze the influence of Pressure, Opportunity, and Capability on Financial Misreporting with Ethical Climate as a mediator. Based on the results of hypothesis testing, it can be concluded that Pressure, Opportunity, and Capability have a significant influence on Ethical Climate. This implies that the level of pressure experienced by individuals, the availability of opportunity, and the capability to use organizational systems and procedures will directly influence the formation of an ethical climate within an organization. In addition, it was concluded that Ethical Climate has a significant influence on Financial Misreporting. This implies that an ineffective or poor level of ethical climate will influence or trigger financial misstatements. The role of Ethical Climate as an internal mechanism that helps individuals make ethical or unethical decisions regarding financial misreporting can be seen from this research. This research proves that Ethical Climate can act as a mediator between Pressure, Opportunity, and Capability, and Financial Misreporting. This implies that pressure, opportunity, and capability do not directly influence financial misreporting, but an effective or ineffective level of an ethical climate will influence financial misreporting within an organization.

The research contributes to theory by introducing Ethical Climate as a mediating factor between Pressure, Opportunity, and Capability and Financial Misreporting. The research validates that financial misreporting behavior is not only motivated by individual- and situation-based factors but also by factors related to the ethical climate of organizations. This research contributes to the development of fraud theory and theory of organizational ethics. From a practical point of view, the research outcomes highlight that organizations need to invest in a strong ethical climate as a means of countering the potential impact of pressure, opportunity, and individual capabilities that may drive financial misreporting behavior.

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