

Review

Behavioral governance, accounting and corporate governance quality

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The article explores the concepts of behavioral governance and behavioral accountability both of which look at the quality of the behavior of organization members, especially directors, as the foundation for sound corporate achievement. This author posits that the effectiveness of governance in general and corporate governance in particular is dependent on the behavioral effectiveness of those who govern and manage. That governance fails is often because more effort is devoted at creating and sustaining structures and processes while almost no meaningful attention is given to genuine institutionalization of behavioral and ethical accountability which are accomplished by the hands of genuine integrity. The quality of corporate performance is hinged on the quality of behavioral performance and accountability with which members of the organization are associated. But given that the elevation of human animality in our organizations has tended to diminish the moral value of organizations, directors should adopt the concept of behavioral governance and behavioral accountability, to raise the quality of behavior and accountability in our organizations, as the route to genuinely raising the quality of performance in their organization.

Key words: Corporate governance, behavioral governance, behavioral accountability, ethical behavior, human animality, moral tone at the top, core organizational values.

INTRODUCTION

Behavioral accountability is deeply rooted in what this author refers to as behavioral and ethical governance. It is a form of accountability that should precede financial accountability because without it, no accountability is meaningful. This is buttressed by the number of corporate malfeasance, distresses and celebrated corporate failures in recent times, some of which were thought unbelievable. In almost all of these cases, a common factor that cuts across is the use of financial accountability, expressed through cooked accounting figures, to deceive the investing public into believing that these organizations were being run well.

Unfortunately, while robust pictures of corporate performance were being painted, the internal control mechanisms of such organizations had been eroded by corporate executives and directors who exist without what can amount to even a modicum of sustainable good character (Iwu-Egwuonwu, 2004). So, what is ordinarily referred to as corporate malfeasance, distress and failure is actually an indictment on the moral character of executives and directors of our organizations.

It is a settled issue that no organization succeeds as a long-lived going concern without proper governance, just as no nation succeeds without the proper governance of its political and economic institutions. Since governance is the act of human beings who are subject to and products of vicissitudes of character, its quality and the success of organizations are dependent on the behavioral quality of those who govern and manage. This is why behavioral and ethical concerns are issues in any attempt to raise the quality of corporate and public institutions' governance. This fact is predicated on the well rehearsed wisdom that nothing works well unless human behavior aligns it to the path of success, and no organization fails, suffers fraud or becomes distressed except by the behavior of its executives and directors. Thus, organizations as human devices tend to be imperfect in the ways they work because of the imperfections and failings of human behavior (Bello J.A, 1988). Organizations therefore, succeed only to the extent to which the efforts of directors and managers to align their behaviors and those of other organizational

members with the intentions of stakeholders succeed. This author holds the strong view that effectiveness of governance in general and corporate governance in particular, is dependent on the behavioral effectiveness of those who govern and manage. That governance fails is often because more effort is devoted at creating and sustaining structures and processes while almost no meaningful attention is given to genuine institutionalization of behavioral and ethical accountability, which are accomplished by the hands of genuine integrity. There is a long list of corporate casualties across international divides on account of behavioral misalignments or diminished behavioral governance and accountability.

In Nigeria alone, 54 banks have either failed or been forced to close between 1994 and 2005. Then there were the cases of the then Lever Brothers Nigeria Plc and Cadbury Nigeria Plc, who overstated their earnings through the cooking of accounts and were appropriately sanctioned by the Securities and Exchange Commission (SEC). In other climes, especially in the United States of America, corporate distress and eventual failure are gradually gaining the status of a national culture and this has been a great concern to regulators. A complete listing of such corporate distresses and failures is impossible here but suffice it to underscore the following: Enron, Arthur Andersen, AIG, Tyco, WorldCom, Qwest, Global Crossing, Vivendi *et cetera*.

What is behavioral governance?

Behavior is said to consist of “activities, interactions, sentiments and performance of individuals and groups”, and observable behavior is of interest when it depicts a pattern (Bello, 1988). This author conceptualizes behavioral governance to mean the direction and control of organizations by directors and managers who would display behaviors that are consistent with higher values and eliciting same from other organizational members, in such a way that doing just the right things, as defined in the immortal values of higher existence, becomes automatic in the conduct of every organizational member, thus aligning the organization to self-perpetuating success.

While not neglecting the structures and processes of good governance, behavioral governance breathes life into them by building the patterns that are receptive to genuine corporate accountability, corporate justice, transparency, genuine disclosures, accounting processes that have integrity and a genuine foundation of high performance as opposed to cooked performance.

What is accountability and accounting in relation to governance?

First, it is important we define corporate governance

briefly in order to take our bearing on accountability and accounting, as they affect corporate governance behavior. The Guardian (August 25, 2010) argues that, the simple idea of corporate governance is about building confidence in your product, erected on the foundation of transparency and accountability, good corporate governance flowed from practices that involved fairness, accountability, responsibility and transparency on a foundation of intellectual honesty. In its simplest definition, corporate governance is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of other stakeholders.

Of course, poor corporate governance was a major factor in almost all known cases of distress of financial institutions. In a report that also evaluates the management of paper accounting records by the government of Namibia, Barata et al. (2001) noted that governments are investing heavily in introducing new financial management systems as a means of improving accountability and managerial efficiency. This is a development that underscores the laying of a sound foundation for behavioral accountability because if the behavior of executives and boards of directors is not properly checked by accounting accountability, which in itself is a subset of behavioral accountability, the quality of governance that will become evident is such that was prevalent at Enron.

But O'Donovan (2003) in her paper titled “Change Management- A Board Culture of Corporate Governance” defines corporate governance as ‘an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. She further posits that sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. Furthermore, O'Donovan argues that ‘the perceived quality of a company's corporate governance can influence its share price, as well as the cost of raising capital.

Accountability and accounting are both instruments that promote high quality of good governance. Sheng (2000) admits that an important theme of corporate governance is to ensure the accountability of certain individuals in an organization, through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussion focuses on the impact of a corporate governance system in economic efficiency, with a strong emphasis on shareholders' welfare. Accountability and accounting are defined and explained as follows:

Accountability: accountability has to do with the opportunity to perform or have an oversight over a subject, which may include an institution, the liability to be

called upon to render an account and the obligation to bear the consequences for failure to perform as expected. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions, products, decisions and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences. The Institute of Social Accountability also reports that accountability is expressed in terms of accounting, reporting and assurance: how management is to report to its shareholders. Stone et al. (2010) have listed eight types of accountability to include:

1. Moral accountability
2. Administrative accountability
3. Political accountability
4. Managerial accountability
5. Market accountability
6. Legal/judicial accountability
7. Constituency relations accountability and
8. Professional accountability (Yu, 2010; Singh, 2009).

Accounting: Snyder (2008) sees accounting as the art of recording, summarizing, reporting and analyzing financial transactions. An accounting system can be a simple, utilitarian check register, or, as with Microsoft Office Accounting, it can be a complete record of all the activities of a business, providing details of every aspect of the business, allowing the analysis of business trends and providing insight into future prospects. The five account types are denoted under two broad accounting areas as follows:

a) Balance sheet accounts

Assets: Things of value that are owned and used by the business.

Liabilities: Debts that are owed by the business.

Equity: The owner's claim to business assets.

b) Profit and loss accounts

Revenue: The amounts earned from the sales of goods and services.

Expenses: Costs incurred in the course of business.

Each of these areas of accounting supports both the need and requirement for accountability in organizations. But when the quality of accounting is poor in any organization or country, then not much can be said of what is normally regarded as accountability in such systems. That is probably why Wu Zhong (2009) says that there is "No Accounting in China's Accountability".

Emphasizing the need to improve accountable accounting, Watkins (2002) notes that although the

"threats" to the accounting profession do not seem so ominous, they are present all the same. One starting point in addressing them, is to better understand the role of accounting information. To accomplish this, one must consider the unique competencies accounting comprises. One could, for example, select from among the elements of decision usefulness, stewardship, control, fairness, attestation, relevance, reliability, representational faithfulness, and accountability for the grounding norms for both accounting information and accountants' competencies. She also quotes Yuji Ijiri to have underscored the importance of accountability, as the foundation of accounting and contrasts this view with one of simply supplying quantitative information for economic decision-making. She notes that Ijiri has further developed the notion of an accountability view of accounting and offers additional distinctions between it and a decision-usefulness orientation, for understanding the purpose of accounting and accounting systems.

"A primary difference speaks of the tensions that are always present, when attempting to provide information that is both relevant and reliable. A decision-usefulness orientation of accounting, places greater emphasis on the relevance of information provided to decision makers". Watkins continued by noting that 'if accounting systems are to facilitate accountability, then the goal of accounting is to construct a "reality" of organizations, which facilitates a fair representation of its activities. This is a concept that the profession seems to once have recognized and yet has lost sight of.

Foundations of governance behavior

Given the nature of man, the effective management of the characteristics of individual members of the organization becomes a very crucial matter in effective behavioral governance. Omoregie (1993) affirms that human nature includes both rationality and animality. The rational value in human beings is reason while the animal aspect, consists of the numerous passions and desires generally referred to as lower emotions. Much of the behavioral misalignments that have diminished the worth of so many organizations in our corporate community today are traceable to human animality or the overriding effects of the lower emotions of members of such organizations. This human animality which is often the source of injustice in human behavior (Rawls, 1972), also tends to bring human beings down to the animal level which manifests in lack of self control exacerbated by the urge for primitive acquisition, fraud or inclination to defeat internal control systems for personal gains, manipulative behaviors in employment matters and dealings with others, injustice and all forms of inclination to grow rich within the dreams of avarice, *et cetera*.

The lower emotions of man are raw and need to be controlled. By their raw nature, these lower emotions are

not bad but the interpretations we give to their presence in our thoughts or minds, is what determines the effect or hold they have on us. Thus, when people are not disciplined, the raw emotions that define the animal in them would push up to prominence, to seize the entire human being, by subduing all senses of reason and elicit behaviors that may shock the unsuspecting world. All manner of evil in our corporate world, as well as in our society are traceable to man's inability to sustain self discipline by allowing the animal in us to dictate our approach to life, as well as the interpretations we give to material things and the manner of their acquisition.

The rational aspect of man or the "reason" component of man, tends to raise him to the rational, spiritual level where higher values of life are considered beyond personal gratifications. Rationality in corporate governance is thus defined by man's ability to suppress lower emotions, see clearly, make right and selfless judgments, reach sound decisions and generally bring self discipline to bear in all his actions. Thus, a man who is rational is a man whose self discipline is sustained and whose reasoning capacity successfully keeps his animal nature in check. Genuine achievements are the hallmark of people who have attained high rationality in their official and personal affairs by succeeding in the control of their passions, their desires or appetites and their entire emotionality. Such are the people governance today and tomorrow needs, in order to minimize unsought consequences and become clothed in best practice and excellence.

Behavioral governance in the composition of the board

Good boards go bad when directors appear to have lost their values. In this regard, Rechtman (2002) advises that what needs to be done is to prevent them from getting so terribly off-track by leading them back in the right direction. But in my view, the easiest way to get a board "going on the right direction" all the time, is to compose such board with behavioral accountability as the bedrock. A so called good board can only go bad, if it was in the first place constituted for other reasons than the sound behaviors of the board members, underscored by the hands of integrity.

In the composition of corporate boards, the concept of behavioral governance requires that the appointers of directors rely not only on the paper qualifications and experience of those to be appointed but more crucially on their built-out character and how this aligns not only with the intentions of the organization but also with the high level of trust and morality built into the position of director which the role occupant must exemplify at all times. The same goes for every management level staff and all other organizational level staff, whose behavioral output must indeed reinforce the pillars of behavioral governance.

Behavioral governance concept aims at the inner core of the person and thus focuses on the proper development of the positive aspects of the character of directors and managers, in order to enhance their behavioral output and the probability that in all circumstances they would be completely led by higher values and not the lower ones underscored by the weaknesses of man and the ills of society. The content of behavioral governance is broad as it encompasses all the tools, issues, subjects and processes that mould and sustain sound behavior in society and in organizations. A partial list includes: integrity of directors and the entire human resources of the organization, strong disposition to transparency, a well developed sense of true justice and the genuine disposition to dispense this justice fearlessly, ability and readiness to meet disclosure requirements instead of seeking to defeat them, a high capability for moral behavior, honesty, reliability for doing the right things, fairness in dealings with the organization, its members and stakeholders; the disposition to ask for genuine accountability and support it, self discipline, proper personality management, having a strategic focus *et cetera* (Iwu-Egwuonwu, 2004).

We earnestly should get concerned with the elevation of behavioral governance in our organizations, primarily for the need to redefine our highly distorted moral values the application of which has tended to diminish genuine corporate performance in favor of "cooked" performance. We need behavioral governance to rejuvenate the human conscience which presently appears dead on the altar of greed, avarice and the urge for primitive acquisitions in our organizations. We also need it to rejuvenate in us the behavioral prerequisites for becoming good custodians of the resources held, on behalf of wider interests and to govern and manage for the general good. These are the backbone of behavioral and ethical governance.

Behavioral accountability

The principal characteristics of effective corporate governance are accountability, transparency, protection and guarantee of the rights and privileges of all stakeholders and the extent of genuine checks and balances in the organization. These are the issues subsumed by what this author refers to as behavioral accountability. The past, present and future of corporate governance, like any other human system, have always hinged and will continue to hinge on the behavioral quality of owners, directors and managers of the corporation. It is the individual and collective behaviors of these people that sum up into the behavior an organization is associated with. They set the tone of how jobs are parceled to units or departments that do them and they influence the behavioral quality of other employees of the organization. Behavioral accountability thus summarizes the moral, functional and righteous

obligations of corporate managers and directors to the corporation and society in the conduct of their governance cardinal roles of directing, decisioning, supervising and accountability, especially through the accounting process.

Two types of accountability are discernible in human organizations. These are behavioral and financial/accounting accountability. The quality and reliability of the latter is greatly influenced by the quality of the former. Behavioral accountability is predicated on the effective development of the human conscience and the development of the self inhibitory and shame attack mechanisms in directors, managers and employees of the organization. The success or failure of organizations is never because of poor financial or managerial accountability but primarily because of the quality of behavioral accountability. This is because the quality of behavioral accountability is the basis for relying on the financial figures presented by any organization. When we ask the question “who are behind these figures”, we are ultimately exploring to reveal the behavioral quality of the managers and directors who have authored and endorsed the accounts or financial statements presented to the organization. No such financial statements can be reliable if the behavioral accountability of those behind them is not reliable.

Financial figures are created and painted by human beings who are influenced by the quality of their conscience or moral development. Since human beings are what they create, the financial accountability of management should be taken with little seriousness until the behavioral quality of those behind the figures (that is, the directors, managers and auditors) are known. This much has been buttressed in the case of the unfortunate overstatement of corporate earnings by Lever Brothers Nigeria Plc some years ago and Cadbury Nigeria Plc in 2008, as well as in the collapse of several banks in Nigeria in which shareholders' funds were totally wiped out. Nearly all other cases of corporate distress, collapse and stock value manipulations across the corporate world go further to buttress this fact. All these cases may have appeared to have been occasioned by poor financial accountability but the real cause is acute moral or behavioral dysfunctions in the management and boards of these organizations.

The need to watch the moral tone at the top

Companies would often present rosy financial pictures of their operations but reliance on this can often lead to cataclysmic outcomes. What is safe to rely on to determine whether these figures are likely to be the true reflections of actual performance, is to try to determine what Ed Harper (2001) refers to as “The Tone at the Top”. The tone at the top refers to the quality of the behavioral accountability of directors and management.

This dictates both the tone of ethical behavior the organization may be associated with and the quality of financial accountability accommodated and delivered in that organization. A major truth is that, many top corporate executives and directors in whose hands the quality of the accountability seen in their organization resides, are not often what they want the public to believe they are. If they were, the corporate financial mess which we have witnessed in recent times, courtesy of the ten banks whose executives and boards, the Central Bank of Nigeria sacked, would not have existed in the first place. Some of the directors were pastors in churches, who used the banks' money to walk their way into pastoral positions. As the investigations by the Police unfolded, we were shocked to note in disbelief the number of houses and other properties worth hundreds of billions of Naira and Dollars, being associated with a single Managing Director of a bank alone. Yet some of these CEOs got into their banks from the top by the instrumentality of either bringing investors together to form such banks or a family member's position in the bank, paved the way for them. So, do not let your judgment of who is a behaviorally sound CEO or board director, be again fooled by the excessive or overt religiosity and the aura of “moral role models” which they appear to surround themselves with. The veil has already been lifted and we can now see that they were never the saints they appeared to be. Not many of these corporate lords live within their means. Ed Harper notes that “whenever you have an officer of the company who is going to receive personal gain beyond his official compensation, something is wrong with that system”.

When the high-up officers of an organization have problems of behavioral accountability, both sides of the audit effort (external and internal auditors) must be on their guard, in order not to trade in their professional conscience and code of best practice. Thus, to ensure proper reporting of accounting information and the true financial state of an organization from financial records, Ed Harper cautions that auditors should always be interested in finding out what the moral tone at the top is like. They must find out if the top people of the organization condone “petty conniving and cutting corners on ethical issues; or if they try to hide things”. They must also find out if these top organizational people “attempt to go outside normal channels of due process when it comes to making decisions about money”, and whether their tone is conducive to the effectiveness of a good internal control system. It must also be found out “if the CEO is willing to be questioned”.

Ed Harper further notes that the poor behavioral accountability of top corporate officers is particularly captured in situations where, “they would rather have the company pay for what are clearly personal/family items which sometimes are outrageous” and “where there is conspiracy among a small group of people in the organization, even the best internal control systems will

be hard pressed to defeat it because the control systems are usually built on having two people sign the check or two people sign an approval. If you have a conspiracy of those two people, it's not going to be revealed easily". Executive fraud is a particularly disturbing dent on the behavioral accountability of corporate officers. This fraud is captured in so many ways and in different shapes and sizes, depending on the organization and the sophistication of the internal control systems it has installed for itself. Executive fraud is broadly defined as an act of deliberate deception, trickery or cheating by an executive or officer of a company (including outside directors), through which the gaining of a personal or group advantage is intended or achieved by an executive. The nature and types of executive fraud are discussed in the next two paragraphs.

Many have argued that problems of behavioral accountability in organizations arise principally from the pressure on corporate executives to succeed in generating profits, even short term profits. Consequently, these executives are said to indulge in sharp practices to declare spurious profits. It is however this author's informed view, that pressure alone is not the problem as pressure is distinguishable from the inclination for immoral behavior. That an executive has behavioral accountability problem is a fundamental issue which may not necessarily arise from immediate environmental problems or pressure. Most behavioral problems originate from deep seated inclinations for dysfunctional behavior, either arising from uncontrolled ambition occasioned by the malfunctioning of the self-inhibitory system in the individual or earlier environmental influences that have helped to mould the individual's personality or both.

So, it appears to me that issues of behavioral accountability problem, border more on the nature of the individual, which can be corrected by the individual himself nurturing a good self-inhibitory and shame attack psychological system. Both are developed through good upbringing, self discipline and the internalization of values that impact positively on the superego. The ways results are achieved in an organization therefore, hint on the moral background of its directors, CEO and the body of the management staff. Shareholders can press for good results and the CEO can further imprint this on the minds of the management staff, but "it is the duty of those who handle the figures to do so in a professional manner and to offer the professionally sound advice and stick to it".

Nature of executive fraud

As stated earlier, executive fraud is broadly defined as an act of deliberate deception, trickery or cheating by an executive or officer of a company (including outside directors), through which the gaining of a personal or group advantage is intended or achieved by an executive

or director. Broadly speaking, executive fraud can be classified into two major groups as next discussed.

Fraudulent manipulation of accounts not involving defalcations or abstraction of money

This usually takes the form of inflation of assets or omission of liabilities with the intention or purpose of making the company appear to be performing better than it truly is. This kind of fraud is at times difficult to find out, not necessarily because it is less frequent but mainly because those that perpetrate it often try to leave no clues for immediate detection. This is because such people are often trusted to be high performers whose stewardship can therefore not be doubted. It is a fraud mostly prevalent in organizations quoted on the stock exchange who would also want to paint rosy pictures not merited by them in order to make themselves and their stocks attractive to unsuspecting investors. Cases of "sudden" failure or insolvency of organizations whose published performance remained attractive to the end include the celebrated Enron case, National Bank of Nigeria, Intercontinental Bank Plc, Oceanic Bank Plc and so many such organizations. The broad reasons for this kind of fraud which arises from poor behavioral accountability include:

- i) To enhance the performance of a business with unearned profit and thus show that the management of the organization has been successful, with the possible implication of increasing the commission on results or performance bonus payable to the chief executive and other concerned officers of the organization. The reported cases of Enron, Tyco, and Global Crossing, and even Vivendi, as well as the 54 banks that collapsed in Nigeria between 1994 and 2005, come in here as clear examples.
- ii) To "shore up" or "bolster" a business which is in an insecure performance position, in order to earn or maintain the confidence of shareholders, creditors, prospective investors and the public. The cases cited in (i) above also apply appropriately here.
- iii) To enable directors pay dividends which considering the true position of the organization would otherwise not have been possible. In this case, the reported profit is bogus, dividend and company tax will be paid from capital and this further depreciates the company by the amount of such payouts.

Fraudulent manipulation of accounts not involving defalcations or abstraction of money is often very ingeniously and skillfully concealed and is in many cases carried out by persons holding positions of the highest trust and having the entire confidence of directors and shareholders. A common way it is perpetrated, is through the manipulation of cut off procedures in an organization.

Cut off procedures are procedures in operation aimed at ensuring that an accord exists between purchase records and stocks and between sales and stock at the end of an accounting period. Thus, all goods received prior to the date of closing the books should be included in purchases. If they are included in stock but omitted from purchases, profit will be overstated to that extent. This is where the fraud occurs. Similarly, goods sold and included in sales in the trading account must be omitted from stock even if they are still on the premises.

The popular English case, re: Thomas Gerard and Sons Limited (1967), is a good example of the fraudulent manipulation of accounts, especially cut off procedures, by the Managing Director of a limited liability company. For the financial periods ended in March, from 1957 to 1962, the company paid dividends out of capital or otherwise irregularly to the extent of 26,254 pounds (net tax) and made payments of profits in excess of its liability, to the extent of 56,659 pounds. The case was heard on a summon by the liquidator of the company. Further details of the case include as follows:

“The company was a private company of longstanding. It carried on business as cotton spinners. Its accounts had for some years shown steady profits as a prosperous business. The Managing Director was a man of good repute, one autumn the crash came. The company’s financial position was investigated and it was found to be insolvent; in the recent years in which profits had been, there had not in fact been profits. The fault was falsifications by the Managing Director in relation to stock. He was prosecuted and convicted. In the creditors’ winding-up, the liquidator proceeded against him for misfeasance and the sum of 7,100 pounds was paid by him in settlement. The apparent profits had been shown as the result of the manipulation of stock. Purchases at the end of an accounting period had not been brought into that period; this had continued increasing over the years. Sales or receipts had been wrongly attributed at the end of periods. For these purposes, dates on invoices had been altered and top copy invoices had been torn out of the invoice books by the Managing Director. The auditor conducting the audits had asked for an explanation, and the Managing Director had said that these were end of period transactions and it was more convenient not to include them in the period in question.

In addition to the manipulation of year-end purchases and sales invoices described above, the Managing Director had also caused the half-yearly stock valuations to be considerably inflated by the inclusion of non-existent stock. This is also the pattern of fraudulent manipulation of accounts reported at Lever Brothers Nigeria Plc, on the one hand and Cadbury Nigeria Plc, on the other. In the case of Lever Brothers Nigeria Plc, now Unilever Nigeria Plc, the Managing Director, who also held the combined position of CEO and Chairman of the board (CEO duality), was forced to resign and in the case

of Cadbury Nigeria Plc, both the Managing Director and Finance Director were sacked. In both cases, the accounts were overstated by more than 1 billion Naira (N1 billion) of unearned income and in both cases the Securities and Exchange Commission intervened by reversing the position of the accounts thereby exposing the level of losses both in the dividend paid out which ought not to have been paid, the corporate tax paid which ought not to have been paid and the real losses the companies recorded.

Defalcations involving the misappropriation of either money or goods

This involves the misappropriation of assets by executives, assets which they hold in trust. This fraud occurs more in companies where executives are seldom subjected to internal checks, as in most cases where the CEO is also the chairman of the board of directors. The methods employed by these executives to conceal such frauds are usually simple, when compared to fraudulent manipulation of accounts not involving defalcations or abstraction of money. Frauds under this category may take the following forms:

- i) Outright stealing of cash: Here, executives steal cash and use an assortment of schemes to cover such stealing. Methods commonly used in perpetrating this type of fraud include arranged break-ins leading to loss of cash by the organization; and the executives who successfully arrange such stealing would normally get a fat share of the booty. Another method is the careful or skilful removal of money by tricking the custodian of the money out for the “operation” to take place and a scapegoat is made of him later, over something he knew nothing about, *et cetera*.
- ii) Cheque fraud: Executives with diminished self inhibitory and malfunctioning shame attack mechanisms, who have access to unused company cheque leaves, can defraud the company by forging the signature(s) to the account. Fraud executed this way can be easily covered, especially if the perpetrator has as his schedule the maintenance of the company’s bank accounts and the reconciliation of the bank statements. Cheque fraud can also be perpetrated via the fraudulent alteration of an already authorized and signed cheque, for an amount higher than what was authorized. Payment documents such as suppliers’ invoices and payment vouchers, can also be forged and routed through proper channels to effect payment. It is also possible to effect payment on the same document/invoice/received goods or purchases more than once, especially if that document was not stamped at the time of first payment.
- iii) Imprest account fraud: Imprest accounts are kept for a lot of purposes such as petty cash expenses and purchases. An imprest may be kept in cash or in a bank

account specially meant for that purpose. A common imprest account fraud, involves “borrowing” from the imprest. Borrowing in this way is fraudulent because the so called loan may have been unauthorized in the first place and the amount borrowed may not be returned. Opportunities for this type of fraud are enormous in a system where imprest account balances are not counted and reconciled to relevant records, at regular and random intervals by independent persons. Some imprest account systems do not provide for independent prepayment checks on expenditure. Payments are only checked independently at the time of reimbursement. Such systems make it relatively easier to forge payment documents such as receipts and invoices while reducing the possibility of discovering such forgeries.

iv) Accounts receivable fraud: A major type of accounts receivable fraud is as “teeming and lading”. Money received from a debtor can be misappropriated and in order to prevent that debtor’s account from appearing to be overdue in accounting records, cash received subsequently from other debtors is credited to him/her. This process can continue indefinitely. In service companies, one common fraud is to bill a client for services rendered to another person. For example, employees of a telephone company can bill clients for call they (employees) made. If the client does not complain of inordinately high bills, such fraud is concealed.

v) Bad and doubtful debts cover-up: Most organizations have a policy of making provisions for debts that are overdue. Such provision may be specific, general or a combination of both. Debts long overdue may be written off as bad, especially where specific provisions have been made. Executives in charge of accounts receivables may connive with debtors, making it possible for the accounts of such debtors to remain outstanding without investigation until they are considered doubtful of recovery, provided for and eventually written off.

We often hear of banks for which non-performing loans constitute a significant proportion of loan portfolios. Some of these loans were properly advanced to associates of the executives of these banks. Often such loans are written off and the banks lose. Another ingenious method devised by bank executives to defraud the bank is to talk some people or fictitious companies into coming to get loans, on the arrangement that the total sum is shared in a manner that will give the bank executives organizing it about 80% while the company or person fronting the loan receives 20% free. Fictitious collaterals are arranged as well as fictitious office addresses and it will be recorded that the proper investigations and search on such persons, companies and the collaterals they presented are made. The loan is granted and year-in, year-out interests are calculated on such loans which have no traceable person or company in the banks’ records. A preponderance of this practice will leave the bank making huge book profits/positive balances out of “loans” that will never be repaid. This is the way, the defunct National

Bank of Nigeria Plc went under.

vi) Utilities and expense fraud: This type of fraud concerns the abuse of services or funds provided to executives to assist them to function properly and effectively. A good example of the abuse of utilities is the use of vehicles meant solely for official functions for private and sometimes domestic purposes. Often, we see official vehicles, especially in the public sector in Nigeria; being converted to taking “madam” to the market and children to school while the owner organization will suffer losses in the cost of gasoline, maintenance of the wear and tear and sometimes accidents that permanently demobilize such automobiles.

Traveling expenses fraud is another common fraud in corporate entities. In many organizations, executives scheme to be sent on tours because going on tour has become an avenue for making quick money by fleecing the organization. There was a case of one executive who took a touring advance of N100,000 for an assignment from Abuja to Lagos. He put up with his senior brother in Lagos and upon returning to Abuja after 5 days he retired the money he took and claimed that he spent N85,000 on accommodation and feeding and of course “manufactured” receipts from nearby hotels to back it up. He further claimed to have spent extra N20,000 of his personal purse and ended up being reimbursed the N20,000.

vii) Contracts and supplies fraud: Kickbacks and the 10% syndrome fall under this heading. Purchase orders and contracts are inflated by the amount of gratification expected to be received from the suppliers or contractors, by those who awarded the contracts or the purchase orders, after the payment has been approved. Specie of this fraud is to request for the supply of substandard items as a pass-off for standard items. The amount approved will be for standard items but monetary difference between what was approved and what was supplied will be shared by the conniving executives.

viii) “The P.R syndrome” fraud: The public relations or PR syndrome is an attempt by individuals to alter, rationalize and even glorify the concept of bribery. Words and phrases such as “settlement”, brown envelopes and seeing officials “at home” fall under this form of bribery and corruption. Bribery is now the order of the day among executives and there are instances that the society even frowns at refusal by their working sons and daughters, to be “settled”. Such officials who refused to be “settled” are among those who remain old fashioned about trust and this should be the bottom-line behavior expected of accountants and auditors.

Procurement fraud

Another area that will be touched in this paper concerns procurement fraud, a practice that is executed so carefully to deceive auditors. Every organization is

expected to have clear operational procedures for all activities, including the procurement of goods. Akintola Williams (AW), an International Firm of Chartered Accountants and Consultants (1995), advises that the best approach to handle the procurement assignment to minimize fraud is to describe procedure for procurement and to highlight along the line, points where fraud is highly probable. The procedure includes the following:

Storekeeper raises purchase requisition;
 Purchasing Manager examines and ensures that the requisition was approved by the head of department;
 Purchasing Manager asks for quotation;
 Quotation box and the quotations opened at the same time;
 Purchasing Manager initiates the raising of Local Purchase Order (LPO);
 LPO is approved by the two recognized signatories who must be senior managers but the Financial Controller must be one of the signatories;
 Goods are delivered by the supplier to the goods inspection unit;
 Inspection unit raises goods inspection report form to accompany the goods to the store (if found suitable and meets LPO specifications);
 Store raises GRN;
 Accounts department receives copies of LPO and GRN and attaches supplier invoice to the other documents;
 Upon maturity the invoice is paid to the suppliers.

Notwithstanding that appropriate procedure is in place as laid out above, purchasing fraud can still be perpetrated by ingenious evil minds in the following ways:

Storekeeper can raise false requisition. This is more likely if suppliers often “dash” or gratify the storekeeper or if the supplier wants to dispose the item with a view to replenishing his stock. The supplier can connive with the storekeeper or the purchasing manager who will initiate purchase requisition under flimsy excuse. Once the supply is concluded, payment is effected and the palms of the collaborators have already been greased.

Quotation is processed. The purchasing manager can manipulate the quotations to favor his candidate (that is the favored supplier) because there is always room for “a thank you” under that operation or arrangement. Over-invoicing can be initiated at this point. Fraud at delivery point: The inspection unit and the storekeeper could connive with the supplier to do the following:

- i) Short-supply
- ii) Supply inferior goods

Payment of suppliers

The accounts department can manipulate the supplier’s

invoice for early payment before the due date. There will be a commission payable to the accounts staff for such service. Furthermore, under cash rationing, the accounts can pay their favored customer in defiance of laid down rules. The less favored supplier will be made to suffer late payment. Since management is aware of cash rationing, detection of such fraud is not very easy.

Using the same document to pay twice

Fraudulent payment is equally possible where the same document is used to pay twice. Another approach is to connive with the supplier by asking the supplier to submit another invoice, a second invoice, with spurious reasons given, for the same goods earlier paid for. The earlier payment might be debited into stores account while the subsequent invoice can be expended.

Using the same document for cash and credit sales

Some local suppliers have no separate document for cash and credit sales. Under that circumstance, the purchaser might advise against the use of stamp. Upon the retirement of the cash advance taken to buy the goods, the same invoice can be drawn out later for payment. Cash purchase is equally prone to abuse. The production of receipt from third party/supplier is not a conclusive evidence of the amount paid for stated goods purchased. In most cases the vendor often asks from the purchaser how much to state on the receipt. The balance between the actual cost of the goods purchased and the overstated difference is the fraud against the purchasing company.

Pilferage of the purchased stock from the store

This can take various forms. One way of doing this in a service workshop, for instance, is to requisition for spare-parts required for the job in excess of the real need. The excess, though charged to the job, will be withdrawn and sold. More especially, in the workshop, already completed and closed job card number can be used to requisition for spare-parts. Furthermore, requisitioned parts may never be used on the job; instead, the allegedly damaged part may be repaired and used. In an electronic workshop, for instance, damaged parts removed from the job might be returned to the store to cover for excess requisition or false requisition earlier made. This accounts mostly for the accumulation of damaged stock in the store.

Management can approve the sale of damaged items at give-away prices, but the storekeeper can release good stock to the buyer in exchange for gratification. This is always at a huge cost to the organization. This is very

common in the case of expensive and difficult to source parts or items. It happens also where a company being aware of the scarcity of some products or items and due to increasing need for such items, buys more stock for the store.

Uncommon ways auditors can uncover procurement fraud

There is fraud at nearly every stage of the procurement process. The uncommon ways by which auditors can uncover some of the frauds include the following:

- i) Ask for schedules of suppliers and hand-pick (randomly) some of these suppliers and visit them. Pose as a prospective buyer for a company and try to strike a deal or bargain. Then proceed to have informal discussions with the suppliers as to the honesty of their business transactions. You may discover by how many internal storekeepers and purchasing managers fleece their organization.
- ii) Visit another and pose as a vendor of certain items or parts from a company. This method is used to discover those who are not true suppliers of such items or parts but who are fronted by the stores people and the purchasing manager to fleece the company. Here, if the alleged supplier you have visited is not truly in that business, you will know easily.
- iii) Propose a deal with some accounts staff.
- iv) Visit some suppliers of latest supplies to verify the price.
- v) Deliberately delay the payment of some of some supplies under the pretext of an investigation going on. Ask the accounts department to refer such a supplier to you for discussion.
- vi) Be friendly with some security officers who may reveal some malpractices.
- vii) As an auditor, recommend an unscheduled transfer of staff from one duty to another or from one location to another.

All these issues have great implications for governance as a whole, whether in the private or public sector and both.

Fraud sheltering

Another angle to explore executive behavioral accountability problem is fraud sheltering. This is a behavioral dysfunction underscored by the covering up of frauds or commercial crimes by executives, who should ordinarily be protecting their organization from harm. It occurs in several ways that may include the following:

- a) When executives pretend that they do not know that

the organization is losing money and assets through carefully planned and concealed leakages which feather the nests of their own paddies and allies in the organization.

b) When an executive's mentees, relations, friends or "boys", working with or having anything to do with the organization, clearly fleeces the organization of money and assets but are protected by their high-up mentors to the detriment of the organization. Some of these mentors or executives may share in the booty or may have actually been the very sponsors of the fraud but shelter those who are used to execute it.

c) When an executive abets or deliberately facilitates the perpetration of frauds and does everything to cover it from prying or curious eyes.

Fraud sheltering may be a consequence of deficient psychological stabilizing factors in a person. It is thus, a direct offshoot of diminished conscience and this makes it a deadly practice, since those with diminished conscience can perpetrate any commercial crime and proceed to cause morbid harm to perceived threats on their way to sheltering their crimes. This is probably why Ojo (1995) maintains that "since the sheltering of fraud further breeds more frauds or encourages more people to indulge in fraudulent acts, sheltering could in fact be viewed as even a worse corporate crime than the direct act of fraud". So, all boils down to the moral character at the top which sets the behavioral tone of what happens in other layers of the organization.

Faithfulness to core organizational values

Accountability is an all-pervading and permeating issue in corporate governance. It summarizes the need for faithfulness to the core values of the organization including accountability of the self, financial/managerial accountability and accountability to wider stakeholders. Our treatment of behavioral accountability summarizes what is referred to here as accountability of the self; financial/managerial accountability is subsumed under accountability of the organization but much more in this regard, is faithfulness to other non-financial core organizational values which define the pillars of organizational consistency, longevity, sanity and proper functioning. The third, not the least, is accountability to wider stakeholders which includes faithfulness to societal level ethics as well as the shouldering of corporate social responsibility. Corporate directors and managers have a duty to remain faithful to organizational core values and central purposes, defined in the "memorandum" and "Articles of Association" of the company.

The governance importance of faithfulness to core organizational values is mentioned by Heinz Wehrich in his work titled "How to Achieve Excellence by Managing the Culture in your company" which summarizes the fact

that faithfulness to core values that include internal organizational processes results in corporate excellence. To excel is to be “superior to others and to be outstandingly good or proficient”. Therefore, excellence means being imbued with great value; being very good in a high degree and surpassing others in some good quality. “Applied to corporate objectives” therefore, excellence can be achieved in various forms that include profit, customer satisfaction, cost efficiency, staff welfare, product quality, organizational stability, organizational respect, integrity and faithfulness to so many other core specific and broad organizational values. Amplifying the fact that accountability of the organization goes beyond sound internal financial controls, to include faithfulness to shared core values, Peters and Waterman (1982) found that “Companies whose articulated goals were only financial, did not do nearly as well financially as those that had broader sets of values, to which they are faithful and which are shared by all employees as the dominating business idea”. They thus noted that, the dominance and coherence of core values (that is corporate culture) proved to be an essential quality of excellent companies”. In many organizations, the basis for stability and success embodied in corporate values has been destroyed by the unfaithfulness of management staff and board members to these values. This is exacerbated by their inconsistency and selfishness, in the application and observance of these values. This selfishness resulted in a lot of unwholesome practices and insider dealings in a preponderance of Nigerian banks, most of which have failed, liquidated or are presently managed by the Central Bank of Nigeria appointed intervention Management team. Insider dealings were exacerbated in these banks with a consequence that, boardroom squabbles that led to physical fights got elevated in some of them. A comprehensive listing of the content of corporate values, to which directors and managers must be faithful, is not possible in this work. But suffice it to discuss at least two of such value areas.

Integrity of the organization

It is said that when salt has lost its savor, it cannot again be salted by anything. Integrity is the salt of the organization which summarizes into its self worth. Integrity is a core corporate value and a critically perishable one for that matter, simply because its diminished nature can negatively affect the quality of the organization’s image and worth and vice versa. Directors and management, as custodians of this value, should thus be accountable for whatever quality of integrity the organization becomes associated with. Vogle (2002) captures the need for integrity in organizational behavior by pointing out the growing and persistent decay in American business, that led to “the U.S business scandals”. Vogle notes that “the challenge of CEOs is to

get their sights on the inevitably long road to rebuild confidence in the honesty of their stewardship”. Integrity got shunted aside by a booming stock market, mounting pressure for short term profit improvements and the lure for quick multimillion dollar personal gains.

Integrity of an organization is the entirety or wholeness of that organization; it is the unimpaired state of the organization, its uprightness, honesty and purity. It is the garb of honesty and incorruptibility that underscore the entirety of corporate vision and activities with which an organization is identified. The board of directors is the ultimate organ by which modern organizations are directed and controlled. Therefore, the integrity of the board of directors defines, to a large extent, the integrity by which the organization is associated with. It is the board of directors whose duty it is, to curtail the excesses of the management team to give the organization the ultimate image of integrity, outsiders and wider stakeholders may identify it with. Consequently, the image an organization is associated with is the image which the board of directors has earned for that organization. This is buttressed by what happened at Cadbury Nigeria Plc in 2008. When the management misbehaved by overstating the accounts of the company, it was the board of directors through the then Chairman of the board that blew the whistle. This was an act of courage that was aimed at preserving the hard earned integrity of the company over decades of its existence. Integrity is a scarce resource and a compass that should guide organizations in choosing whoever they want to appoint into the board as a non executive director, officer director, managers and employees.

The human resource system

An organization’s human resource system is another critical core value to which directors and managers must remain obedient and faithful. The effectiveness and the undisturbed quality of the human resource system, lend great value to the success of an organization because the human resource system is the engine room and soul of every organization. Directors approve policy along key human resource values and systems which management should respect, observe and deliver. These policies reinforce the human resource culture of the organization. Policies may cover such issues as recruitment, selection, compensation, maintenance, promotion, discipline, separation and so on. There is need to preserve these value areas in the human resource function because any attempt to manipulate them to suit personal or group whims will flush down to the whole organization with unpleasant consequences. So, being obedient to core human resource values within the organization is both a major test and an important beacon of accountability for corporate directors because accountability also defines how consistent directors are in safeguarding such

corporate resources. A practice where directors would want to bend HR rules in order to, for instance, hire their own person or manipulate well laid out processes or systems in order to promote their own candidate, may open up behavioral and performance gaps that may render all other subsystems within the system dysfunctional.

Consistency in the observance of laid down processes and systems within the organization, is part of a disciplined culture with which directors and managers must identify. Directors are thus accountable for the quality of respect and discipline accorded core value areas in their organization. The foundation of core accountability values is laid, when directors maintain exemplary behavior in all issues that relate to major or minor policies, rules and regulations within the organization as well as standards, procedures and operating plans.

Conclusion

This work explores the concepts of behavioral governance and behavioral accountability both of which look at the quality of the behavior of organizational members, especially directors, as the foundation of sound corporate achievement. This author posits that the effectiveness of governance in general and corporate governance in particular, is dependent on the behavioral effectiveness of those who govern and manage. That governance fails is often because more effort is devoted at creating and sustaining structures and processes while almost no meaningful attention is given to genuine institutionalization of behavioral and ethical accountability, which are accomplished by the hands of genuine integrity. The quality of corporate performance is hinged on the quality of behavioral performance and accountability with which members of the organization are associated. But given that the elevation of human animality in our organizations has tended to diminish the value of organizations, directors should adopt the concept of behavioral governance and behavioral accountability, to raise the quality of behavior and accountability in our organizations, as the route to genuinely raising the quality of performance in their organization.

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