



# **An Examination of the Relationship between Corporate Culture and Financial Statement Fraud in Nigeria**

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## **Author's contribution**

*The sole author designed, analysed, interpreted and prepared the manuscript.*

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## **ABSTRACT**

This research paper investigated the relationship between corporate culture and financial statement fraud among listed companies in Nigeria. Data for the research was collected from primary sources through the issue of structured questionnaires to the top and mid-level accounting staff of fourteen companies listed on the Nigerian stock market and analyzed using descriptive statistics and the OLS method of the multiple regression analysis. The findings showed that there is a negative relationship between corporate culture and the perpetration of financial statement fraud in listed companies. Thus, strong corporate culture in terms of teamwork and communication will lead to a reduction in financial statement fraud. The findings also indicated that there is a negative relationship between corporate culture in terms of transparency and accountability and financial statement fraud. It is thus concluded that positive corporate culture reduces the tendencies to commit financial statement fraud among organization listed on the Nigeria stock market. Further, it is concluded that transparency and accountability in the workplace reduce the perpetration of financial statement fraud. However, in both cases, corporate culture is not a reliable determinant of financial statement fraud. Thus,

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financial statement fraud can still occur in organizations with positive workplace culture if procedures relating to compiling and publishing financial statements are violated. It is thus recommended that organizations should take actions and set examples that will continue to enthrone a positive workplace culture in their organizations. It is also recommended that companies imbibe the culture of strict compliance with laid down rules and procedures in compiling and publishing financial reports so as to ensure that individuals with fraudulent intents do not take undue advantage of lapses in the system to perpetrate fraud.

*Keywords: Corporate culture; financial statement fraud; management fraud.*

## 1. INTRODUCTION

Fraud is a negative organizational reality that cannot be wished away. No matter the efforts by stakeholders to tackle the menace, it continues to thrive in the workplace. As noted by numerous researchers, the organizations 'body language' or what is more aptly described as organizational culture play a very crucial role in the perpetration of fraud in the firm [1,2,3,4]. An organization that puts its employees in undue pressure to deliver some performance metrics may induce the employee to commit fraud just as one in which the audit committee is perceived by employees to be lenient on employees who commit infractions that are advantageous to the organization. According to Amah [5], a culture of ambiguity and mistrust can impact negatively on organizational performance. Ji, Rozenbaum and Welch [2] asserted that flawed competitive culture - one that sets overly aggressive targets and is intolerant of failure - may encourage employee dissatisfaction, instill pressure to commit fraud, and actually rationalize doing so. Thus, in an environment where managers have poorly implemented targets on which basis performance is measured, they impose aggressive performance targets on employees to start cooking the books so as to meet such targets. Furthermore, corporate culture encompasses the shared values, standards, attitudes and beliefs that characterize members of an organization and sets the tone of its behavior to entities outside the organization. Corporate culture has its roots in the firm's goals, strategies, structure, and behavior towards customers, investors and other stakeholders. Thus, an organization's success or failure is inexorably linked to its culture [6]. Corporate culture affects an organization's operations and flows from management downward and outward to other employees and how they interact with clients and customers.

Financial statement fraud is the purposeful inclusion of misleading information in financial

reports with the intent of deceiving users of such information Cooper [7]. It involves the falsification of financial statements statement to create fictitious revenue and understated liabilities etc. As has been exemplified in various cases, such fraud in extreme cases can cause the liquidation of the concerned and could lead to loss of goodwill and investors' confidence. Even where the concerned organizations survive the ensuing scandals, it may take a very long time before they recover from the lost if at all they do. Consequently, an insider fraud like financial statement fraud cannot be divorced from the organization's culture. This is because financial statement fraud cannot take place without the authorization of top management from whence the organization's culture flows from. Zimbelman and Albrecht, [8] asserted that Financial statement fraud is synonymous to management fraud since it is committed by executives on behalf of the organization so as to make the organization look than it is (on paper) and for their own selfish interests.

Since corporate culture is also an organizational concept that has its roots in and flows from top management, this research effort is geared towards unraveling the relationship between financial statement fraud and corporate culture in Nigeria. Since most previous research on financial statement fraud in Nigeria has more or less failed to recognize the linkages between these two phenomena, this research will be bridging an important empirical gap on the subject matter in Nigeria. The research hypotheses are as follows:

H0<sub>1</sub>: There is no significant relationship between corporate culture in terms of teamwork and communication on financial statement fraud.

H0<sub>2</sub>: There is no significant relationship between corporate culture in terms of transparency and accountability on financial statement fraud.

## **2. THEORETICAL FRAMEWORK**

### **2.1 Information Asymmetry**

The theory of asymmetric information was developed independently by, George Akerlof, Michael Spence and Joseph Stiglitz for which they were awarded a Nobel Prize in Economics in 2001. It occurs when a party to an economic or financial transaction has access to greater material information on the transaction than the other party or parties. This asymmetry in information creates an imbalance of negotiating power in transactions which can cause the party with privileged information in the transaction to exploit the other. This is often the case where the financial statement which is supposedly a source of reliable information for parties to the transaction is employed to disseminate false or misleading information with the intent of deceiving the victim into making decisions he would otherwise not make. Here, the organization's management knows the information to be false or materially altered and that the other party would have acted differently if he 'knew' what the manager knew.

Jiraporn, Miller, Yoon, and Kim [9] posit that when the extent of information asymmetric is high, it becomes harder for stakeholders to adequately monitor the conduct of managers, giving managers greater leeway to abusing their powers in the process of taking advantages of privileges in financial reporting. A practical case in point would be a firm's management overstating its revenue in the financial statement so as to lure investors who are attracted by such metrics or understating liabilities so as to lure creditors into providing additional credit for the firm. In both cases, if the information disadvantaged party had all the information he would likely have made a different decision. Asymmetric information thus favours the party with the most information.

## **3. CONCEPTUAL FRAMEWORK**

### **3.1 Corporate Culture**

Corporate culture encompasses the shared values, standards, attitudes and beliefs that characterize members of an organization and sets the tone of its behavior to entities outside the organization. Corporate culture has its roots in the firm's goals, strategies, structure, and behavior towards customers, investors and other stakeholders. Thus, an organization's success or

failure is inexorably linked to its culture [6]. Ravasi and Schultz [10] characterized a corporate culture as an array of shared assumptions which guide their behaviors in the relationship with members of the organization and their clients/customers. Corporate culture is often implied and develops naturally over time from the accumulation of the behaviors of the people the organization employs. An organization's culture will often be reflected in employee traits, dress code, office set up employee welfare and relationships, business hours and the likes. In addition, corporate culture varies by an organization Deal and Kennedy, 2000. Guiso, Sapienza, and Zingales [11] after aggregating the fifty most recurring values were able to distill these into nine categories into which corporate culture can be identified - these are: Integrity; Teamwork; Innovation; Respect; Quality; Safety; Community; Communication and Hard work. Amah (2013) identified the locus of an organization's corporate culture to emanate from anywhere within the organization comprising a blend of size, initiators, past and present leadership, occurrences and history as well as imported from elsewhere as a result of experience and identified some corporate culture elements to include Shared Mission, Shared Values, Employee Involvement, Adaptability and Involvement.

### **3.2 Financial Statement Fraud**

Financial statement fraud involves the purposeful misrepresentation and inclusion of misleading or false information in financial reports with the intention of deceiving users of such information. It provides information to users in making investment decisions [12]. Thus, any fraudulent misrepresentations made in the financial statement have far-reaching implications for the organization involved and its stakeholders. According to Elliott and Willingham [13], financial statement fraud is typically carried out by top management or with their full knowledge and consent. Hence, financial statement fraud is often viewed as management fraud. Financial statement fraud takes advantage of the information asymmetry that exists between different parties in a financial transaction. Through combining the illusion of disclosure with false information, financial statement fraud increases the cost of information asymmetry to stakeholders outside the organization while appearing to minimize it (Black 2006). This is because of parties in the financial transaction who do not have access to first-hand information

count on the information presented to them through the financial statement in making investment decisions.

Brennan and McGrath [14] identify the motivations factors for financial statement fraud to include: executive compensation packages based on reported performance/earnings; desire to maintain or increase the organization's share price; pressure to meet internal and external forecasts of analysts; pressure or desire to minimize tax liabilities; need to avoid violations of debt agreements and; desire to raise cheap external capital. These motivating factors are directly linked to internal organizational factors including weak control environment; rapid growth; inadequate or inconsistent profitability; unrealistic profitability expectations; management placing undue emphasis on meeting earnings forecasts; and ownership status [14]. Furthermore, fraudulent information in financial statements are of various types which depending on the over-riding motive may include Revenue overstatements/understatements; Assets overstatements/understatements; Fictitious revenues; Improper asset valuations; Liabilities overstatements/understatements, Improper disclosure; Concealment of Liabilities and Expenses; and Timing Differences and Inconsistencies among others.

### 3.3 The Nexus

An organization's corporate culture is seen in the way members execute their functions towards achieving organizational goals. Culture can affect the way individuals act, make decisions and respond to issues affecting the organization. According to Adkins and Caldwell [15] when employees fit well with the culture of the organization they work in, job satisfaction can be guaranteed and a number of negative consequences averted. In the same vein, the Association of Certified Fraud Examiners [16] asserts that a negative work environment, prompt employees to commit fraud that will hurt the organization because they feel not obligated to protect it. Ocansey and Ganu [1] stated that organizations that fail to reward appropriate behavior, discriminate, do not give recognition to deserving employees among others, risk employees loyalty to the extent they are willing to commit fraud to the organization. Similarly, the leadership style that grant access to supervisors or freedom to report workplace irregularities such as the lack of promotional opportunities, unfair and the likes promote poor corporate culture [16].

However, the organization can still maintain a positive work environment with motivated employers and still have a problem of financial statement fraud if top executives decide to take actions in that direction. This can be fathomed in the light that financial statement fraud in many instances is committed by employees who view their actions as being to the advantage of the organization. For example, financial statement fraud can occur because management wants to portray the performance of the organization in good light so as to attract prospective investors or creditors in order to keep the organization afloat. In another instance, financial statement fraud can be committed by executives with the intent of meeting performance projections.

## 4. EMPIRICAL REVIEW

Ocansey and Ganu [1] explored the role of corporate culture in managing occupational fraud. The research which took the form of a literature review contended that corporate culture is critical in mitigating the risks of fraudulent acts. For an organization with ethics solidly ingrained in the corporate culture and displayed by top leadership, internal scams are minimal. Thus ethical corporate culture should be promoted to integrate an organization's core values and motivate employees to do what is right. It is important that employees be allowed to sound off their suspicions which can be decisive in minimizing frauds.

Ji, Rozenbaum, and Welch [2] investigated whether financial reporting risk is associated with job satisfaction, company culture, and opinions of senior leadership. Using data based on employee perspectives, they hypothesized that when organization's performance objectives are not well implemented a boiler room effect is created, which unhelpfully impact on the corporate climate and increased the inclination to manipulate performance indicators. They observed that firms with lower levels of job satisfaction and lower levels of "culture and values" are more likely to be subjected to lawsuits and sanctions due to fraud.

Tana, Chapple, and Walsh [3] analyzed the corporate governance and performance relation, when conditioning on corporate fraud, and identified fraud firms as either self-reported fraud events, or subject to regulatory investigation. Using the inverse Mills ratio procedure to account for firms' fraud culture in the

dynamic system GMM model of the performance-governance relation, they find that corporate governance is an endogenously determined characteristic with no causal impact on firm performance when conditioning on fraud and that fraud is a significant regulatory event but its overall economic impact at the firm level is highly variable.

Mahesarani and Chariri [17] investigated the effect of corporate governance on financial statement fraud in Indonesia, using independent Board of Commissioners (IND), managerial ownership, audit committee meeting and quality of external auditor and measures of corporate governance and firms which were suspected for being involved in financial statement frauds by regulators. Data were then analyzed using logistic regression method. The findings revealed that the audit committee meeting significantly influenced financial statement frauds. Meanwhile, the independent Board of Commissioners, managerial ownership and interaction of quality of external auditor and audit committee meeting have no significant impact on financial statement frauds.

Davidson, Dey, and Smith [18] examined how executives' behavior outside the workplace as measured by their ownership of luxury goods and prior legal infractions is related to financial reporting risk. Using a predictive method of data analyses, they predict and find that chief executive officers and chief financial officers (CFOs) with a legal record are more likely to commit fraud. In contrast, no relation is found between executives' frugality and the tendency to commit fraud. They also find that unfrugal CEOs manage a somewhat loose control environment which increases the chances of other insiders to commit fraud and inadvertent reporting of errors during their tenure.

In another study, Amah, [5] examined the effect of Corporate Culture on organizational effectiveness in the Nigeria banking industry using a total of 388 managers randomly drawn from a population of 13,339 managers. Spearman's Rank Correlation Statistical tool was used as the method of data analyses. The findings showed that adaptability positively influences organizational profitability and market share. However, adaptability and organizational productivity did not have a significant relationship.

## 5. METHODS

The study used the survey research design and collected data from a sample of fourteen (14) companies listed on the Nigeria stock market with offices in Rivers State. The sample was selected based on convenience and accessibility to the researcher. Using the organizations' accounting staff as the unit of analyses, the survey instrument was issued to four (4) members of staff of each of the sample organizations. Data for the dependent variable (financial statement fraud) and independent variables (corporate culture) were collected through a series of structured questionnaire items. Corporate culture was measured using the categories identified by Guiso, Sapienza, and Zingales [11] as measures of corporate culture. These include Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT). The Financial Statement Fraud (FSFRAUD) is measured by a series of questions in the research instrument. Data were analyzed using multiple regression analyses of the form:

$$y = a + b_1x_1 + b_2x_2 + \dots + b_nx_n + e_i \quad (1)$$

Where the relationship between the variables is stated functionally as:

$$\text{Financial Statement Fraud} = f(\text{corporate culture}) \quad (2)$$

Corporate culture is measured as Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT). While Financial Statement Fraud (FSFRAUD), we have that:

$$\text{FSFRAUD} = A + \beta_1\text{TEAMCOMM} + \beta_2\text{TRANSACCT} + U \quad (3)$$

Where

FSFRAUD = Financial Statement Fraud  
 TEAMCOMM = Teamwork and Communication  
 TRANSACCT = Transparency and Accountability  
 $\beta_1$  and  $\beta_2$  = Coefficients of regression  
 A = Constant and  
 U = Error term  
 For a priori expectation, it is proposed that  $\beta_1, \beta_2 < 0$

### 5.1 Data Presentation and Analyses

Table 1 shows the results of the descriptive statistics which indicates that the skewness of

the data set gave values of 0.1674, -0.2265 and -0.8232 respectively for financial statement fraud (FSFRAUD), Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT). This result implies that while Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT) have a negative skewness, financial statement fraud (FSFRAUD) has a positive skewness. However, the entire data set approach normality in skewness.

Furthermore, the result also shows that the kurtosis values for the data set gave values of 2.0651, 2.7155 and 2.8837 respectively for financial statement fraud (FSFRAUD), Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT). Considering that the normal kurtosis value is 3,

we can surmise from the result that all the variables have a negative kurtosis implying that more values in the dataset are lower than their mean values. But, TEAMCOMM and TRANSACCT display features of a very nearly normal distribution.

Finally, the Jarque-Bera statistic for the variables gave values of 2.0953, 0.6082 and 5.7887 and Probability values of 0.3508, 0.7378 and 0.0553 respectively for financial statement fraud (FSFRAUD), Teamwork and Communication (TEAMCOMM) and Transparency and Accountability (TRANSACCT). Considering that the null hypothesis for the Jarque-Bera statistic is that the data set is normally distributed around the mean, we do not reject the null hypotheses and conclude that all the variables are normally distributed.

**Table 1. Descriptive statistics for financial statement fraud, teamwork and communication; and transparency and accountability**

	<b>Fsfraud</b>	<b>Teamcomm</b>	<b>Transacct</b>
Mean	54.93412	56.46059	48.06588
Median	53.42000	57.00000	53.42000
Maximum	86.11000	100.0000	84.62000
Minimum	31.37000	0.000000	-8.110000
Std. Dev.	13.84194	21.34920	22.79434
Skewness	0.167353	-0.226530	-0.823194
Kurtosis	2.065133	2.715493	2.883714
Jarque-Bera	2.095260	0.608193	5.788747
Probability	0.350768	0.737790	0.055334
Sum	2801.640	2879.490	2451.360
Sum Sq. Dev.	9579.970	22789.42	25979.10
Observations	51	51	51

**Table 2. Regression results for financial statement fraud, teamwork and communication; and transparency and accountability**

<b>Dependent Variable: FSFRAUD</b>				
<b>Method: Least Squares</b>				
<b>Date: 11/25/18 Time: 15:56</b>				
<b>Sample: 1 51</b>				
<b>Included observations: 51</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	38.45378	6.248244	6.154334	0.0000
TEAMCOMM	-0.118086	0.086251	-1.369103	0.1773
TRANSACCT	-0.204160	0.080783	-1.527277	0.1148
R-squared	0.156091	Mean dependent var		54.93412
Adjusted R-squared	0.120928	S.D. dependent var		13.84194
S.E. of regression	12.97804	Akaike info criterion		8.021417
Sum squared resid	8084.621	Schwarz criterion		8.135054
Log likelihood	-201.5461	Hannan-Quinn criter.		8.064841
F-statistic	4.439094	Durbin-Watson stat		1.657769
Prob(F-statistic)	0.017025			

In the regression result in Table 2, the coefficients of regression for team and communication and transparency and accountability gave values of -0.1181 and -0.2041. These values show that corporate culture has as measured by teamwork and communication and transparency and accountability have a negative relationship with financial statement fraud with the implication that organizations with strong teamwork and communication values in their management cadre will have reduced financial statement fraud. Conversely, where teamwork and communication are weak in top management, financial statement fraud will flourish as individuals will be more likely to take advantage of the lacuna to perpetrate fraud. Furthermore, organizations with increased transparency and accountability in the management cadre will have less financial statement fraud to worry about. However, in both cases, the probability of the t-statistic indicate that role of teamwork and communication and transparency and accountability is not statistically significant with the implication that the presence of these values cannot be relied on to eliminate financial statement fraud in organizations.

## 6. DISCUSSION OF FINDINGS

This research paper investigated the relationship between corporate culture and financial statement fraud among listed companies in Nigeria. Data for the research was collected from primary sources through the issue of structured questionnaires to the top and mid-level accounting staff of fourteen companies listed on the Nigerian stock market.

The findings of the research showed that there is a negative relationship between corporate culture and the perpetration of financial statement fraud in listed companies thus, strong corporate culture in terms of teamwork and communication will lead to a reduction in financial statement fraud. This is because the financial statement is pervasive in an organizational environment with a culture of secrecy and where just a few individuals have access to pertinent information. In such an environment, the few individuals with access to information can advantage of such a situation to their selfish end. Ocansey and Ganu [1] reported that when ethics is solidly ingrained in the corporate culture and demonstrated by top leadership, an organization is more likely to lessen internal frauds.

The findings also indicate that there is a negative relationship between corporate culture in terms of transparency and accountability and financial statement fraud. This implies that organizations with high levels of transparency and accountability will have lower levels of financial statement fraud. On the other hand, organizations with individuals' executives who exhibit the habit of not being accountable for the activities are more likely to experience financial statement fraud. This is especially true in organizations where ownership and control are in the hands of very few individuals. Ji, Rozenbaum, and Welch [2] reported that firms with lower levels of "culture and values" are more likely to be subjected to regulatory fraud enforcement actions and securities class action lawsuits.

## 7. CONCLUSION AND RECOMMENDATIONS

Positive corporate culture reduces the tendencies to commit financial statement fraud among organization listed on the Nigeria stock market. Thus, teamwork and communication as measures of positive corporate culture encourage openness which in turn discourage negative tendencies like financial statement fraud. Further, it is concluded that transparency and accountability in the workplace reduces the perpetration of financial statement fraud. However, in both cases, as indicated by the findings, corporate culture is not a reliable determinant of financial statement fraud. Thus, financial statement fraud can still occur in organizations with positive workplace culture if procedures relating to compiling and publishing financial statements are violated.

Considering the above, it is recommended that organizations should take actions and set examples that will continue to enthrone a positive workplace culture in their organizations in terms of communication, transparency, and accountability. This will help to reduce the risk of rogue elements within the organization from perpetrating financial statement fraud and also help to curtail the possibility of negative corporate culture from suppressing the positives. Companies should imbibe the culture of strict compliance with laid down rules and procedures in compiling and publishing financial reports so as to ensure that individuals with fraudulent intents do not take undue advantage of lapses in the system to perpetrate fraud. Lastly, it is recommended that an organization develop the

culture of zero tolerance for financial statement fraud whether or not it is in the interest of the firm.

### COMPETING INTERESTS

Author has declared that no competing interests exist.

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