The Influence of Tone at the Top on Financial Statement Fraud of Listed Manufacturing Firms in Nigeria

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ABSTRACT

Financial statements prepared by the management remains the umbilical cord that connects the financial health of an enterprise to the various stakeholders who rely on them to take informed economic decision. However, the contemporary global business community has unimaginably been submerged in the recent wave of the shocking death of notable corporate entities sooner after the publication of juicy profits which metamorphosed from the poor and ineffective tone at the top orchestrated by top management in collaboration with the independent external auditors. Most of these corporate collapses were associated with the top management with widely exercised corrupt practices. The inefficient or nonexistence of tone at the top in most of entities contributed to the widespread violations and exploitation of accounting loopholes. These apparent upsurge of recently doctored financial statements frauds have resulted in the impairment of firm's productivity, operational efficiency, damages reputation for businesses, heavy financial losses, collapse of an entire organization and have severely eroded the stakeholders' confidence and public trust. The thrust of this study is to establish and develop efficient and formidable tone at the top that will help to ameliorate financial statement fraud rascality in the quoted Nigerian manufacturing sector. Ethical leadership strategy, corporate ethical culture and risk management practices were used as the proxies of tone at the top while improper revenue recognition dimension of the financial statements fraud. The researchers adopted correlational survey design for the study and used primary data via structured questionnaire. The null hypotheses were formulated and tested at 0.05 level of significance and other data were analyzed by Pearson Product Moment Correlation and multiple linear regression model with the aid of Statistical Packages for the Social Sciences version 25. The study found that all the tone at the top proxies; Ethical leadership strategy, corporate ethical culture and risk management practices positively and significantly related to improper revenue recognition of quoted Nigerian manufacturing companies in the period of this study. The study concludes that tone at the top effectively and significantly related with the financial statement fraud. We recommend that the policymakers to prompt manufacturing companies in the country to develop strategies for tone at the top with strong ethical approach where employees will be trained and re-trained on the need always to do what is rightful and needful at every moment in the society and workplace. We also suggest that the parents should give their wards very good upbringing so that they can be useful in society and will be free from all social vices such as fraud.

Keywords: Ethical leadership Strategy, Financial Statement Fraud, Corporate Ethical Culture, Tone at the top, Improper Revenue Recognition

INTRODUCTION

In the annals of accounting and global business space, financial statements remains the only potent and veritable means of communicating the financial health of entities in terms of statement of financial position, statement of comprehensive income, statement of changes in equity, cash flows and the relevant notes to accounts to their users in the annual general meeting. Normally, the management of an entity is responsible to prepare and present annual financial statements that faithfully represents the operational activities with a view to provide relevant, reliable and timely information for stakeholders and other users to make informed decision. In recent times however, Adekoya, Oyebamiji & Lawal, (2020) opined that the wave of shocking death of notable corporate entities sooner after the publication of juicy profits has remain embarrassing spectacle in accounting profession. Abeki (2022) asserts that the sudden demised of corporations shortly after the published healthy annual report, obviously resulted from financial statements fraud of improper revenue recognition, overstatement of assets, understatement of liabilities, misappropriation of assets and improper disclosure and many others. The import is that revenue is deliberately raised in a particular year which would make the next year income to be smaller suggesting a crafty financial statements fraud. Ibanichuka, (2022) describes fraud as a generic term to represent all the multifarious activities of persons, and/or corporate entities, whether private or public, that denotes deceit to gain unfair advantage over another by the perpetrators. Those involved in such activities are known as fraudsters. Similarly, the Association of Certified Fraud Examiners (ACFE, 2022) defines fraud as one in which an employee uses his or her occupation to enrich himself or herself through the deliberate misuse or misappropriation of employer’s resources or assets. Financial statement fraud distorts financial statement analysis (Olayinka, 2022) and therefore able to mislead investors, creditors and other potential stakeholders. These fraudulent practices are masqueraded and successfully perpetrated and inspired directly or indirectly by top management in collaboration with the independent external auditors.

The global fraud survey by the Association of Certified Fraud Examiners (ACFE, 2022) reported that fraudulent financial statements is the least common (10% of schemes) but the costliest form of fraud. It stresses that each occupational fraud case would incur a median cost of $125,000 over a median period of 14 months. Whilst asset misappropriation and corruption happen more frequently than financial statement fraud whose impact crime is considerably greater in magnitude as reported by its median loss of $954,000 with a median period of 24 months.

Consequently, financial statement fraud results in the impairment of a firm’s productivity, operational efficiency, damages reputation for businesses, loss of shareholders’ confidence and mostly, collapse of an entire organisation, loss of jobs and tax income to the government (ACFE, 2020). This was evident in high profile corporate level frauds such as Enron, Barings Bank, Satyam, Xerox, WorldCom, Parmalat and other similar accounting scandals which significantly dampened the level of trust and reliance placed on financial information provided (Okoro and Onyebueke, 2021). In the case of ENRON, profits were overstated by as much as 586 million dollars for four years while WorldCom fraud in 2002 operating expenses of 3.8billion dollars were capitalized thus overstating its profit (Storbeck, 2021). In Nigeria, the Cadbury (Nig) PLC scandal has remained a reference point for fraudulent financial statements in the manufacturing sector. It is plausible that globally companies collapsed because of the unethical conduct of their top management (Cronje, 2018), bearing truth to the proverb: ‘Trees die from the top’ (Staicu, Tatomir, & Linca, 2013). Research supports the argument that the weak integrity of top management stimulates not only unethical decisions but also fraudulent behaviour of those in top management (Rittenhouse, 2015).

The only imperative lifeline that could bring these deadly and worrisome financial statements fraud on their knee is a robust and formidable tone at the top of the entity. This is a term used in accounting parlance to describe the top management ethical leadership commitment to being honest and ethical behaviour with establish workplace cultural environment and corporate values of a company. It is management’s commitment to honesty, integrity and ethical behavior at all levels of the organization. IODSA, (2016) states that a company’s tone at the top is being made up of the ethical behaviour of the leadership and the creation of an ethical climate. It is a fundamental ingredient for reliable financial reporting (COSO, 2013; Sharma et al., 2008). While higher integrity levels of top management will decrease the risk of material misstatement, it follows that lower integrity of those in top hierarchy positions will increase the risk of material misstatement. A vigorous and efficient tone at the top strategy can substantially reduce the magnitude and loss of fraud (ACFE, 2020). However, there is apparent paucity researches on the role of the tone at the top in mitigating financial statements fraud in the extant literature (Jaffer et al. (2019) and Kassem (2018). It is therefore, imperative to examine the effect of the tone at the top on financial statements fraud of quoted manufacturing companies in Nigeria.

Statement of the Research Problem

Financial statements fraud has remained a great threat to corporate entity's going concern especially manufacturing firms and its interaction with external stakeholders such as customers, suppliers, financiers and business partners which has resulted to huge financial damage, diminution of investor confidence, and invariably, collapse of an entire organisation. These have apparently manifested in the business space as highly notable corporate entities not limited to Enron, Barings Bank, Satyam, Xerox, WorldCom, Parmalat and Cadbury have recently been sent to their early grave. Most of these frauds were often in the form of accounting and financial manipulation perpetrated by the unethical rascality of top executives of corporate entities. Association of Certified Fraud Examiners (ACFE) (2022) observes that the manufacturing industry is becoming more susceptible to fraud over the years due to the ineffective tone at the top management because fraudsters are now more skillful and versatile in designing other means of breaking these ineffectiveness.

Tone at the top capsulizes the ethical atmosphere that is created in the workplace by the organization's leadership. Whatever tone management sets would have a trickle-down effect on employees of the company. If the tone set by managers upholds ethics and integrity, employees would be more inclined to uphold those same virtues and values. However, if upper management appears unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud because they feel that ethical conduct is not a focus or priority within the organization. Employees pay close attention to the behavior and actions of their bosses, and they follow their lead. If manufacturing firms must perform efficiently, effectively and contribute meaningfully to the development of a country economy, the industry must be safe, stable and sound devoid of the rampaging wave of fraudulent financial statements orchestrated and midwifed by the top management. For these to be achieved there is urgent need for a robust and formidable tone at the top of the entity to ensure sustainable going concern. There is apparent little or no empirical studies on the impact of the tone at the top on the financial statements fraud in the extant literature. Based on the above problems and to achieve the purpose of this research, it became a necessity to carry out a study on the influence of tone at the top on financial statements fraud of quoted manufacturing companies in Nigeria with a focus on ethical leadership strategy, corporate ethical culture and risk management practices.

Aim and Objectives of the Study

The study aimed at examing the relationship between tone at the top and financial statements fraud of quoted manufacturing companies in Nigeria with the following specific objectives below:

SO1: Examine the influence of ethical leadership strategy on financial statements fraud of quoted manufacturing companies in Nigeria.

SO2: Investigate the influence of corporate ethical culture on financial statements fraud of quoted manufacturing companies in Nigeria.

SO3: Establish the influence of risk management practices on financial statements fraud of quoted manufacturing companies in Nigeria.

Research Questions

In line with the above aim and objectives, the study asked the following research questions;

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RQ1: What is the influence of ethical leadership strategy on financial statements fraud of quoted manufacturing companies in Nigeria?

RQ2: How does corporate ethical culture influences financial statements fraud of quoted manufacturing companies in Nigeria?

RQ3: What is the influence of risk management practices on financial statements fraud of quoted manufacturing companies in Nigeria?

Research Hypotheses

The following null hypotheses were formulated and tested at 0.05 level of significance:

HO1: There is no significant influence of ethical leadership strategy on financial statements fraud of quoted manufacturing companies in Nigeria.

HO2: Corporate ethical culture has no significant influence on financial statements fraud of quoted manufacturing companies in Nigeria.

HO3: There is no significant influence of risk management practices on financial statements fraud of quoted manufacturing companies in Nigeria.

The remainder of this study is organized as follows. Section 2 presents the relevant literature reviews, Section 3; methodology. Section 4 centers on findings and discussion. Finally, Section 5 summarizes the overall study and the potential implications.

LITERATURE REVIEW

This section presents the conceptual review, theoretical review and empirical review. It reviews the opinion expressed by authors and writers in the area of tone at the top and financial statements fraud of quoted manufacturing companies with their respective sub-constructs and provided insight into the phenomenon.

Operational Conceptual Framework

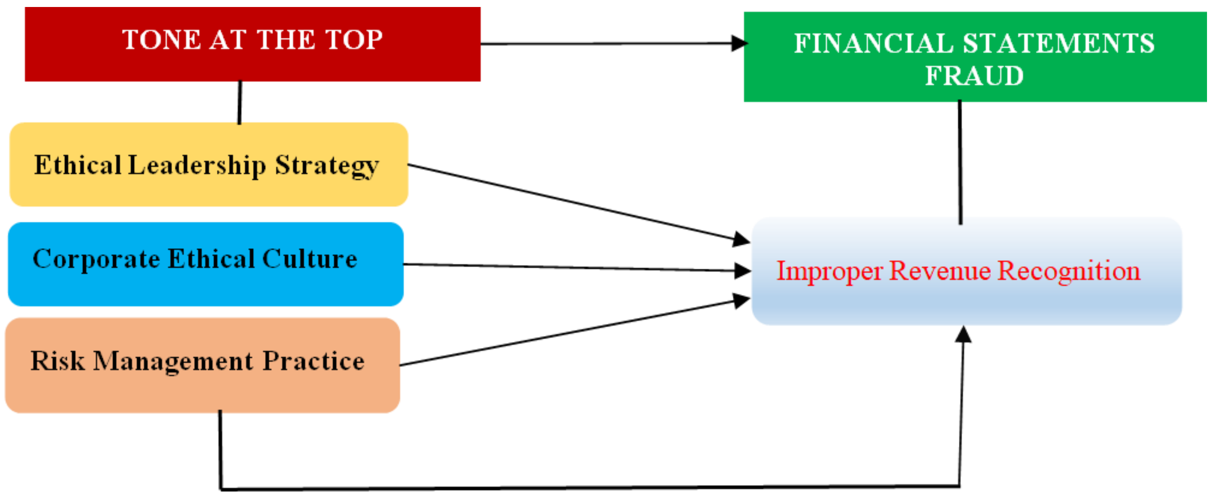

Fig. 1: Operational Framework of Tone at the Top and Financial Statements Fraud of Quoted Manufacturing Companies in Nigeria.

Source: Solomon and Abukakar (2023)

Frauds and Fraud Dimensions

Fraud is any intentional act carried out to secure unlawful benefit at the expense of another person(s). Persons in this case referring to both natural persons and artificial persons (corporate or governmental entities). Albrecht in his Fraud Examination (2009) defines fraud as a general term, and encompasses all the ways that human ingenuity can be designed, forced by an individual, to benefit from others by using false information. The Association of Chartered Fraud Examiners (ACFE, 2022) defines fraud as the “the international use of one’s occupation for personal enrichment through the deliberate misuse of the organization’s resources or assets.” There is no definite and volatile rule that can be defined as a general proposition in defining fraud, because it includes surprises, deceit, cunning, and unfair ways by other cheats. A common theme in these definitions therefore is the human intentionality and dishonesty of the act by the perpetrators. Chen, Babaei and Maul (2020) opine that understanding the motivation behind perpetration of frauds is key to be able to detecting or preventing them in the first place. Golden, Skalak and Clayton (2006) further argued that for fraud to successfully occur, four ingredients are crucial viz: existence of a material false representation; certainty of knowledge by the perpetrator of the false representation; reliance by the victim on the material false representation so made and the suffering of financial loss or quantifiable damage as a direct result. The Association of Certified Fraud Examiners (ACFE) recently released its 2022 Global report on occupational frauds based upon the survey it carried out covering 133 countries with very useful insights provided. First, the report showed that nearly half (49%) of all reported fraud cases emanated from four functions within an organization namely operations, accounting, sales and top management personnel in that order. Secondly, according to the report, apart from the United States and Canada (36%), Sub-Saharan Africa is the region of the world with the highest number of reported fraud cases accounting for nearly a quarter of global cases (23%). Additionally, in terms of global costs, about $4.7 trillion (representing 5% of global corporate revenues) is lost to frauds annually with assets misappropriation and financial statements frauds accounting for about 95% of these cases in terms of volumes and values. This further underscore the need to have necessary machineries put in place to deter rather than merely detecting frauds.

Various scholars have viewed frauds from various dimensions and typologies, however ACFE, (2012) broadly classified fraud into three as Corruption, Asset Misappropriation, and financial statements fraud. Each of these categories has several sub-categories.

Corruption – using one’s position of power for personal gain, including bribery, conflicts of interest and extortion. The second most common at 50% of cases studied, with an average loss of approximately $150,000. **Asset Misappropriation** – stealing or misusing company assets. Accounted for 86% of cases studied, but the least costly to organizations, with an average loss of $100,000 per case.

Financial Statement Fraud – intentional material misstatement in the financial statements. The least common fraud, at only 9% of cases studied, but the costliest, with an average loss of $593,000 per case. As times change and technology evolves, so do fraudsters and their schemes. It is important to keep in mind that fraudsters do not necessarily limit themselves to one method of defrauding their organization, and many times companies will find that perpetrators of fraud have participated in many types of schemes all at once. For a fraudulent act to occur, there are usually three factors present: Opportunity, Pressure and Rationalization, also known as the Fraud Triangle. The opportunity to commit fraud typically results from internal control failures, such as the lack of segregation of duties that allows the perpetrator to commit and conceal the fraud at the same time. Pressures to commit fraudulent acts often stem from financial hardships. Lastly, rationalization allows a perpetrator to convince himself or herself that what they did was okay. For instance, the fraudster could rationalize that they deserve the additional monies because they are overworkedand underpaid. Organizations need to be aware that fraudulent acts can be conducted by employees of all levels, in all departments, but fraud schemes carried out by those charged with governance, including managers, executives and the Board of Directors tend to last the longest and cost the most. [2] Executives only committed 23% of the cases studied, but the median loss of these cases was $337,000, significantly greater than losses caused by managers. [3] .This study focused financial statement fraud.

Financial statement fraud

Financial statement fraud is the least common type of occupational fraud occurring in less than 10% of the cases according to the ACFE report to the nation on occupational fraud and abuse (2018). Financial statement fraud, however, has a median loss of $975,000 which is the highest out of the three categories of fraud on the fraud tree (ACFE, 2018). Financial statement fraud is now one of the biggest challenges in today's modern business world (Lawyers Connect, 2016). Financial statement fraud is the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements in order to deceive financial statement users (ACFE, 2016). The negative impact of financial statement fraud on stakeholders is by far higher than corruption and asset misappropriation. Usually committed by senior management, this crime is typically a means to an end. The motives for perpetrating financial statement fraud include personal gain, keeping the business afloat, and retaining status as a leader in the organization. Fraudsters attempt to inflate the perceived worth of the company to make the stock appear more attractive to investors, to obtain bank approvals for loans and/or to justify large salaries and bonuses when compensation is tied to company performance.

This was the case in Enron, WorldCom, and Toshiba. Financial statement fraud can also lead to loss of jobs and pension and could have a long-lasting effect on the economic growth of a country (Mueller, et al., 2015). Financial statement fraud often results in some investors committing suicide. It also jeopardises the going concern of a corporation. This is the primary reason why this study set out to explore the views of major stakeholders in the industry on how to reduce financial statement fraud through a system shift to formidable internal control system. Financial statement fraud does not occur regularly as compared to other types of occupational fraud, but when it happens, the implications are usually significant. The fear of systemic market failure occasioned by inflating profits is achieved through manipulation of revenue, valuation of asset wrongly and improper expense recognition. In this study, financial statements fraud was examined in the perspectives of improper revenue recognition.

Improper revenue recognition

In a simple term, revenue is recognized and recorded for financial statement purposes when the sale occurs, which usually occurs on delivery of the product or provision of the service. Thus, it is different from cash flows that are recorded when the cash is received. In reality, determining when to recognize revenue in all of the scenarios that happen in the real world is very complex. There are accounting rules to guide the revenue recognition process, which can be broken when committing fraud. In fact, improper revenue recognition is the most common type of financial statement fraud (Dechow et al. 2011). Revenue schemes focus on manipulating revenue. This normally means falsely increasing reported revenue, but in some cases the reverse can be true. Revenue schemes are classified into the following categories; fictitious or inflated sales, timing schemes, misclassification schemes, gross?up schemes. The usual reason revenue is improperly recognized is to fraudulently increase revenue and consequently raise income, in order to improve the financial performance as shown in the income statement. It can also be used to decrease these figures, but that is comparatively rare.

Tone at the Top

The term tone at the top refers to an organization's overall ethical climate established by the board of directors and senior management. It establishes the guiding principles and is the most crucial element of the control environment. Law, (2011) describes tone at the top as the degree of commitment by management and those charged with governance of the entity (board of directors) to having an open, direct, honest, and ethically correct corporate culture. Tone at the top management level is a key element of an organization's risk management framework, since proper and adequate support from the top is likely to provide a robust foundation for reliable financial information. Management sets the tone at the top, and employees are more likely to uphold the same values if management sets a good example of honesty, integrity, and ethics. Weaknesses in the "Tone at the top" have been associated with most modern financial frauds. Poor tone at the top may include negligence of internal controls, an overemphasis on profits at the expense of ethics, a belief that compliance with the law is sufficient for defensible ethical conduct, and the accommodating of some stakeholders.

Setting the right tone at the top requires leaders to set an ethical example of how their employees should behave in the workplace and provide a safe mechanism for reporting fraud and unethical behaviour. According to the Global Business Ethics Survey in 2020, 22% of employees globally have felt pressure to bend the rules. The pressure to bend the rules is associated with higher levels of misconduct, including fraud, discrimination, and violating the law. The survey also reports that employee pressure to bend the rules was higher among those who perceived their leaders as having a weak commitment to organisational values and ethical leadership (Ethics and Compliance Initiative, 2020). In another survey by PwC's 2020 Global Economic Crime and Fraud Survey, 47% of companies experienced fraud, and barely one-third reported the fraud to the board. These findings indicate the importance of having an effective tone at the top. Setting the right tone at the top also requires top management to design a code of ethics with zero tolerance to fraud and unethical behaviours, reward integrity, take corrective actions when raised by auditors, and cooperate with the auditors and audit committee. Management's attitude towards control deficiencies and auditors' recommendations to take corrective actions determines their integrity level (Abdullatif, 2013; Kassem, 2018). Top executives, as one of the corporate watchdogs, must maintain independence in judgment from top management to ensure objective and reliable financial reporting processes (Eskenazi et al. 2016). Their incentives to oversee financial reporting quality, however, may depend on the tone set by top management

Ethical leadership strategy

Ethical leadership refer to that type of leadership which is controlled by reverence for moral beliefs and standards and for the dignity and rights of other people. Agha, Nwekpa and Eze (2017), maintained that ethical leadership relates to concepts such as fairness, transparency, honesty, personality, trust, consideration, integrity, and equal treatment. They affirmed that the issue of ethics in an organization must be addressed from the upper echelon. Examples must be set for the subordinates to follow in order to breed an ethical climate for organizational growth and success. However, the contemporary business landscape has been witnessing staggering levels of unethical conduct that has strikingly surfaced at the bottom-line figures with estimated total losses worth US$42 billion reported by PwC's Global Economic Crime and Fraud Survey (2020). Interestingly, the contributions of top management in various unethical practices account for over 26% which includes some of the costliest instances of fraud producing not only fnancial impacts for organisations but also emotional and psychological impacts for their stakeholders (PwC, 2020). While sufficient evidence also indicates that top management exhibits serious concerns for business integrity in terms of complying with rules and regulations, behaving responsibly towards various stakeholder groups and maintaining high moral standards (Earnest &Young, 2020), the trajectory of corporate scandals continues to increase at a more rapid rate than ever before (Mishra et al., 2021), and reciprocal dynamism is witnessed among 'bad apples' and 'bad barrels'(Cialdini et al., 2021).

Accordingly, corporate leaders, along with the cultures they foster within organisations, work in a viciouscycle wherein one reinforces the other to establish a breeding ground for profound and severe unethical practices. Unsurprisingly, therefore, more than 50% of companies globally experience a minimum of six fraud incidents per year, with another 50% not reporting or investigating the worst incidents (PwC, 2020). Hence, unethical leadership is at the intersection of immoral, illegal leadership practices and the unethical climate that further strengthens such leadership. Whether bad apples promote bad barrels or bad barrels host bad apples, the contemporary line of discourse in leadership is increasingly realising the consequentialnature of unethical leadership. The integrity of the accounting profession and the reliability of the financial information prepared by the organization have become doubtful due to the manipulation of financial statements (Ahinful et al., 2017). Ethical leaders will create reward and disciplinary system for encouraging employees to act in an ethical manner in their day to day activities (Ferrell et al., 2015). Everyday ethical employee behavior pattern will create an ethical organization with higher employee satisfaction and commitment (Ferrell et al., 2015). Effective ethical leadership influences the organization culture, then it will directly impact throughout the firm's ethical behavior (Ferrell et al., 2015). Ethical business leaders not only talk about ethics and act ethically on their personal level, but they also allocate corporate resources to support any ethical behavior (Hartman et al., 2015). For example, they decide that the company regularly dedicates a significant portion of its profit toward philanthropy. Ethics is especially relevant for accountants and professional auditors because the job requires a combination of standards, ethical knowledge, and skills to a large extent. Integrity is the quality of a person's characteristics which indicates consistency between actions, values, steps taken, measures used, principles held, hopes to be directed, and results (Irianto et al., 2018). The tendency to manipulate financial statements can be reduced by the presence of an ethicalenvironment.

Corporate ethical culture

Ethical culture is a culture in which individuals are encouraged and supported in making ethically responsible decisions (Hartman et al., 2015). Management of a corporate culture is very important in creating, enhancing, and preserving culture that supports ethical behavior. A culture is fashioned by a shared pattern of beliefs, expectations, and meanings that influence and guide the thinking and behaviors of the member of an organization (Hartman et al., 2015). Strong ethical cultures produce substantially better outcomes (less pressure, less misconduct, higher reporting, and less retaliation) than in a weaker ethical environment. Ethical culture could assist in the prevention of fraud because individuals in organizations do not exist in a vacuum. An individual's behavior, including the tendency to commit fraud, is influenced by the organizational context in which they work (Maulidi, 2022; Ocansey & Ganu, 2017; Suh & Shim, 2020). Corporate culture is often expressed informally through statements, both directly and indirectly, that communicate the wishes of management (Ferrellet al., 2015). Shared beliefs and values are also expressed by instituting informal dress codes, working late, and participating in extracurricular activities. Schwartz (2013) argues that three essential elements must be present if illegal or unethical activities are to be minimized through the maintenance of an ethical corporate culture. The three elements include: (1) the existence of core ethical values; (2) ethics training; (3) ethical leadership which sets the appropriate tone at the top as reflected by the board of directors and senior managers. Ethical culture is an important element in anti-fraud strategies compared to monitoring control (Suh et al., 2018).

Fighting fraud and unethical behaviour starts at the top of the organisation. Top management with integrity will lead by example, discourage fraudulent and unethical behaviour, and adequately discharge their responsibilities. If the tone set by top management upholds ethics and integrity, employees will be more inclined to follow those same ethical values. However, if top management seems unconcerned about ethics and fraud, employees will find it an opportunity to defraud the organisation (CIMA, 2015; Halbouni et al., 2016). Furthermore, an effective tone at the top involves treating employees fairly and respectfully, providing fair pay, remuneration, and promotions, investing in adequate anti-fraud controls and risk management systems, holding individuals accountable for their responsibilities, and prosecuting fraudsters rather than firing them (Kassem, 2021). Promoting a culture of integrity within an organisation requires fostering an anti-fraud culture that includes mandatory employee fraud awareness training, establishing an easily used and understood whistle-blowing process, and setting up an effective fraud hotline. It also involves disseminating a clear written code of practice covering accepting gifts and consistently implementing disciplinary processes to violate anti-fraud policies (Ingber, 2020).

Theoretical Framework

This study is anchored on two main theories of agency theory (Jensen & Meckling, 1976) and the fraud triangle theory (Cressey, 1950). While agency theory utilized in establishing the role of conflicting interest role and the weaknesses of the current accounting system in fraud menace, the fraud triangle model gives an account of the three elements that could enable management to commit financial statement fraud. The two theories will now be considered in more details and linked together. The choice of Agency Theory is based on its ability to inform the critical role it plays in the asymmetry conflict between the principal and the agent, making the Fraud Triangle Model highly compatible with Agency Theory in developing the tone at the top and its fraud minimization capacity. The Fraud Triangle Model explains the three elements that are responsible for criminal violation of trust. Wolfe and Hermanson (2004) improved on the Fraud Triangle Theory and added the fourth element which they called capacity to form the Fraud Diamond Model.

Agency Theory

Agency theory which is elsewhere called contracting theory is one of the theoretical perspectives that has been widely used in understanding organisations and has been seen to dominate current accounting research (ICAEW, 2005). Agency theory was first introduced to management literature by Jensen and Meckling (1976). Agency theory describes the principal-agent relationship that exists between shareholders and management, with top management acting as an agent whose personal interest do not naturally align with the company's and the shareholders interest (Jensen & Meckling, 1976). From the perspective of agency theory, directors and managers have a responsibility to ensure that true and fair view financial statements are issued to the existing shareholders, to provide information on the quality of their stewardship of the company. The directors' role in overseeing financial accounting processes and the risk of unethical behavior in this function creates an agency cost for the shareholders. In the context of the agency relationship between shareholders and directors, financial statement fraud may be used to conceal the failure of company directors in their duties towards the company's shareholders. In this case, the financial figures are altered and the company's true activities are not reported to shareholders.

However, the agency theory is premised on the economic perspective which assumes that a conflict of interest characterizes the relationship between the principal and the agent. Such conflict usually occurs between agent and principal. This conflict of interest usually occurs as a result of information asymmetry (Arnold & de Lange, 2004). Information within an organisation is very critical to decision making, and management working at the coal face of the operations are privy to essential information that can be manipulated to maximize their interest at the expense of the principal (ICAEW, 2005). As a result of this, management (agent) has a competitive advantage of information within the company over that of the owners (principal). The information advantage that the agent has resulted in the inability of the principal to control the desired action of the agent (Arnold & de Lange, 2004). This conflict of interest is called agency problem (Albrecht, et al., 2004). Because of information asymmetries and self-interest, principal lacks reasons to trust their agent and will seek to resolve these concerns by putting in place mechanism to align the interest of agents with those of the principal and to reduce the scope for information asymmetries and opportunistic behaviour for financial statement fraud (Albrecht, et al., 2004; ICAEW, 2005). The nature of the misstatement in financial accounts will depend on the pressure or motive behind it. If the motive is misappropriation of assets, the misstatement required will involve the understatement of income and assets and the overstatement of expenses and liabilities, in order to conceal the extent of equity which ought to be available to owners or the amount of unused grants repayable to funding bodies. If the motive is to conceal poor or negligent performance, the misstatement required will involve the overstatement of income and assets and the understatement of expenses and liabilities, in order to create a false and optimistic view of performance.

Fraud Triangle Theory

Cressey (1971) postulated the theory of fraud triangle. He observed that fraud is likely to occur given a combination of three factors; namely- Pressure (Motivation), Opportunity and Rationalization. Pressure here refers to needs or desires that have to be satisfied. It could be divided into financial pressure, vices, work-related pressure and other pressures (Adeniji, 2012). Opportunity to commit fraud, conceal the fraud or avoid being punished forms the second element of the fraud triangle. The third element is rationalization which entails giving unnecessary explanation(s) to justify one's involvement in fraud. There exists pressure, motivation or compulsion on the fraudster who identifies opportunity which he utilizes and tries to justify his actions by unnecessary rationalization.

Empirical Review

This section presents the empirical evidence (i.e those research that are done on the topic area) to support the undertaking of the research and helps the researcher to pin point the knowledge gap in the literatures.

Joseph & Isiaka (2022) examined the effect of of tone at the top on risk management of firms in Nigeria. The population is thirty-seven (37) listed financial services firms and sample size are twenty-nine (29) deposit money banks and listed insurance firms in Nigeria and twenty (20) were administered to each of the sample size firms. The cluster sampling techniques was adopted for the study. Primary data was sources through the administered questionnaire to the respondents through the use of five point Liker scale system, and the SMART-PLS-3-SEM was used to analyze the data fitness and test of research hypothesis. Constructive reliability and validity and the discriminate validity measure were used to test the fitness of the model. Path coefficient, predictive relevance of exogenous. Findings from the study revealed that control environment and monitoring are positive and significant effect on risk management, while the information and communication has a negative and significant effect on risk management. It is recommended among others that the management of financial services firms should maintain the used in control environment, monitoring system because they play a greater in effect on risk management while critically look the measure on to restructure their ICT system and improve on disclosure and reporting system.

Chnar (2022) analyzed the impact of tone at the top on fraud detection and prevention of commercial companies in Iraq. It is necessary to set an appropriate tone at the top, and top management should encourage ethical behaviour in a transparent manner. A risk assessment process needs to be set up, and the risk of fraud can be assessed by brainstorming to deceive the organization. It is necessary to create report and the investigation process. Thus, this work attempted to review and analyze 20 articles among different countries to reveal the importance of internal control system in preventing and detecting fraud in commercial companies. It is discovered that it has a significant role in fraud prevention.

Okoro & Onyebueke (2021) examined fraud detection, prevention, control, and investigation in Nigeria financial sector. The specific objectives were to; assess the motivation behind fraud, and fraudulent activities in Nigeria, investigate how fraud is concealed, examine processes of fraud discovery, and appraise the justification for committing fraud. Sample survey research was adopted for the study while the population comprised of banks, insurance firms, pension fund custodians, and microfinance banks. The analysis of data was carried out using tables, and mean while a hypothesis was tested using, ordinal Linear-by-Linear Association model (Log-Linear Regression Model). It was found out that there are significant motivations behind fraud, and fraudulent activities in Nigeria, and there are equally significant ways of concealment of fraud in Nigeria. There are significant processes of fraud discovery in Nigeria. It was therefore recommended that the regulatory, and supervisory bodies of, organizations in Nigeria need to improve their supervision using all tools at their disposal to appropriately check, and curtain the incidence of fraud, and fraudulent practices. Furthermore, training techniques should be upgraded to test honesty, and integrity, and not just technical skills. This should entail extensive training programme regularly done, as well as personality tests, and IQ tests so as to understand the personality, and character of the trainee. This would reduce negligence, and carelessness in carrying out basic procedures that could pose as loopholes for fraud.

Joseph (2020) assessed the effect of tone at the top on fraud prevention Ghana. The questionnaire was used to obtain data for the study. A combination of purposive sampling and random sampling techniques were used to select the sample elements. A sample of ten (35) management staff including the internal auditor was selected for the study. The study revealed that, the internal control measures put in place by management have helped the bank in preventing fraud. It was again revealed that majority of the respondents agreed that management ensure that all necessary measures needed to prevent and detect fraud are provided. Also, majority of the respondents (91.4%) revealed that there is an effective supervision and implementation of internal control system capable of revealing fraudster's mode of operations in the bank.

Peter & Tonye (2020) studied on providing empirically findings on of tone at the top influence on listed commercial banks financial performance in Nigeria within 2000-2018 respectively. Secondary data sourced were analyzed through the error correction mechanism (ECM) for identified long-run co-integrating relationship that exists among variables, and t-statistics output were employed to test formulated hypotheses in the study. The empirical results of study shows that profitability with security of funds control strategies have a non-linear significant influence on financial performance of listed commercial banks in Nigeria, while effectiveness and efficiency control strategy has a linear significant influence on listed commercial banks financial performance in Nigeria for the period under study. The study further drew conclusion premised on empirical findings that internal control strategies are of necessity to corporate financial performance (listed commercial banks in Nigeria) in upholding the going concern concept and recommend to its management to periodically review internal control strategies standard and employ modern sophisticated measures specifically on effectiveness and efficiency control strategy due to its linear significant influence on financial performance of listed commercial banks in Nigeria for the period under study.

Identification of Knowledge Research Gap

Empirical review in Nigeria, other Africa countries and the rest countries of the world above pin pointed out various research gaps which the current study seeks to fill. From the foregoing extant empirical review, the following gaps were clearly identified:

RG1 Some of the previous studies were internationally based whose business and environmental peculiarities are quite different from Nigeria and as such, the research findings from these countries would be foolhardy to be applied in Nigeria.

RG2 Many of the previous studies did not give recuse to the time-frame of their research making it very different difficult to appropriately know the periods of their investigation. The import is that time reference could be made with absolute certainty.

RG3 Most of the existing studies findings are mixed and inconclusive.

It is against the light of the above that this current research extended the body of knowledge and investigated the relationship between tone at the top and financial statement fraud of listed manufacturing firms in Nigeria using ethical leadership strategy and corporate ethical culture to curtail financial statement

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fraud in the dimensions of improper revenue recognition.

METHODOLOGY

Correlation survey design was adopted in carrying out this study. Survey design becomes appropriate as it supports the use of primary data via structured questionnaire with respondents to elicit the opinion of the participants on the issue of interest in the study. The population of the study consists of the listed manufacturing companies on the main and premium boards of the manufacturing sub-sector of the Nigerian Stock Exchange (NSE) as contained in the NSE daily official list (Equities) for June 7, 2023. This manufacturing sector is made up consumer goods companies(21) and industrial goods companies(13) on the NSE. However, this study focused on all 13 industrial goods companies of the listed manufacturing sector on of the Nigerian Stock Exchange (NSE) as contained in the NSE daily official list (Equities) as earlier stated and thus constitutes the working population of the study as depicted in the table 1 below.

S/No.	Name	Founded
1	AUSTIN LAZ & COMPANY PLC	13-Jul-82
2	BERGER PAINTS PLC	1-Sep-59
3	BETA GLASS PLC.	2-Jun-74
4	BUA CEMENT PLC	30-May-14
5	CAP PLC	21-Sep-65
6	CUTIX PLC.	4-Nov-82
7	DANGOTE CEMENT PLC	4-Nov-92
8	GREIF NIGERIA PLC	20-Jan-40
9	LAFARGE AFRICA PLC	24-Feb-59
10	MEYER PLC.	20-May-60
11	NOTORE CHEMICAL IND PLC	30-Nov-05
12	PREMIER PAINTS PLC	24-Aug-82
13	TRIPPLE GEE AND COMPANY PLC.	14-Apr-80

Source: NSE (2023)

Table 1. Working Population of the Study

The relevant data for the study was obtained through structured questionnaire from the directors, managers, auditors, accountants, and top executives opinions from the ten quoted commercial banks with national spread in Nigeria.

Measurement of Variables

The tone at the top as the independent variable was dissected in the perspectives of ethical leadership strategy (ELS), corporate ethical culture (CEC) and risk management practices (RMP) while the financial statements fraud as the dependent variable was measured in the dimension of improper revenue recognition (IRR) respectively in this study.

Statistical Test

The study adopted and used the Pearson correlation and regression model of inferential statistics to analyze

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and test the null hypotheses at 0.05 level of significance with the aid of Statistical Package for SocialScience (SPSS) version 25. Also, descriptive statistics through table and percentage were reported.

Model Specification

In line with the conceptual frame work and the null hypotheses stated earlier, multiple regression model (MRM) was employed to estimates the relationship of the independent variables: Specifically, the regression model is:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 \ldots + \beta nXn + \varepsilon \text{ ……………………. } (3.1)$$

$$IRR = f\text{(ELS, CEC \& RMP) ……………………………... } (3.2)$$

Where, Y represents dependent variable IRR (improper revenue recognition) as a function of independent variable e-learning platform in the form of (ELS, CEC & RMP) representing ethical leadership strategy, corporate ethical culture, and risk management practices respectively.

$$IRR = \beta 0 + \beta 1ELS + \beta 2CEC + \beta 2RMP + \mu \text{ ………..… } (3.3)$$

Where:

ELS = Ethical Leadership Strategy

CEC = Corporate Ethical Culture

RMP = Risk Management Practices

IRR = Improper Revenue Recognition

$\beta 0$ = Constants

$\beta 1 - \beta 3$ = Coefficient of predictor variables

ε = Error terms

RESULTS AND DISCUSSIONS

Data Presentation

The survey conducted with Directors, Accountants, Auditors, Heads of Departments and anti-fraud control experts and top executives responses from thirteen listed manufacturing companies (industrial goods) with Nigeria Stock Exchange was the data of this study. The instrument was administered online by the researcher to the participating respondents and they were informed that participation in the survey was voluntary and that their responses were confidential.

Questionnaire Distribution and Return Rate

A total of 133 questionnaires were distributed out of which 113 were returned. This represented a response and useable rate of approximately 85% and 88% respectively. These are thus deemed adequate for a

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descriptive study. The response rate is shown in Table 4.1 below.

Questionnaire Status	Freq./Rate
Copies of questionnaires distributed	133
Returned Questionnaires	113
Questionnaires not returned	20
Returned and excluded questionnaire	13
Useable questionnaire	100
Response rate	85%
Usable response rate	88%

Source: Solomon and Abubakar Research Survey, 2023 via Excel

Demographic Information

In this section, results of the respondents' demographic information as derived from the questionnaires are presented. The information sought under this section included gender, age distribution, work experience as well as the level of education of each respondent.

Gender

The questionnaire required respondents to indicate their gender. The study findings revealed that 68% of the managers were male thus representing the majority, while 32% were female. Figure 4.1 illustrates these results.

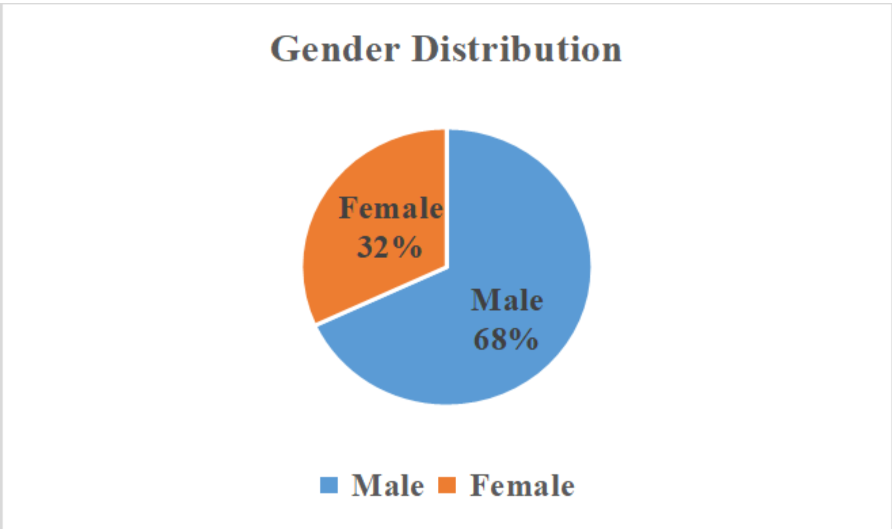

Figure 4.1: Gender of Respondents

Source: Solomon and Abubakar Research Survey, 2023 via Excel

Age Distribution of the Respondents

The questionnaire required the participants to indicate their age bracket. The findings showed that about 39.8% of the respondents were between 45 and 54 years and about 32.7% were aged between 35 and 44 years. Almost 15.9% of the managers were aged between 25 and 34 years.

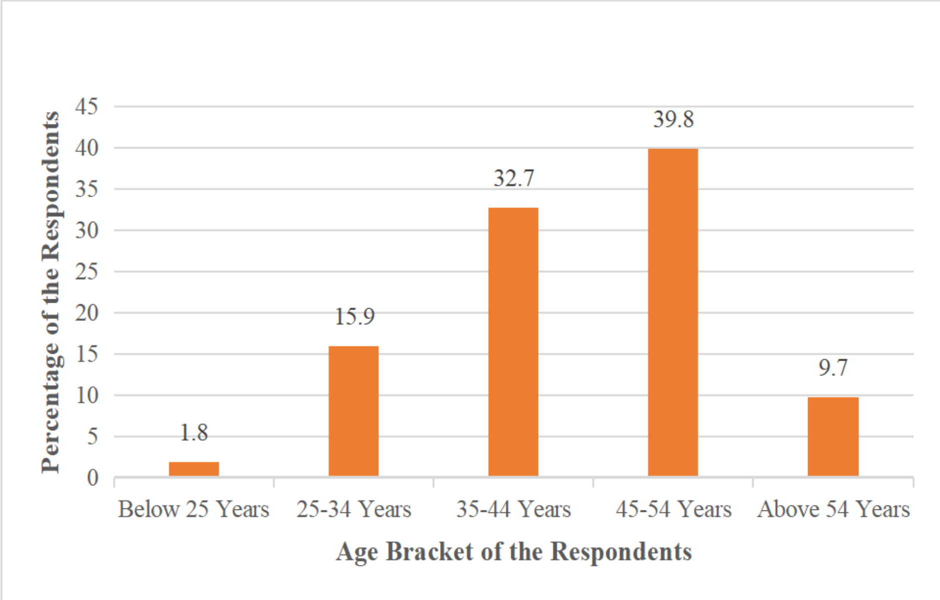

Figure 4.2: Age Distribution of Respondents

Source: Solomon and Abubakar Research Survey, 2023 via Excel

Years Worked in the Corporation

The results in Figure 4.4, indicate that about 32% of the participants who had worked in the corporation for less than 5 years while close to 23% had worked in the corporation for between 6-10 years. Those that had worked in the corporations between 11 – 20 years were about 25%, between 21-30 years was 12% while over 30 years was 8% as presented in fig 4.3 below.

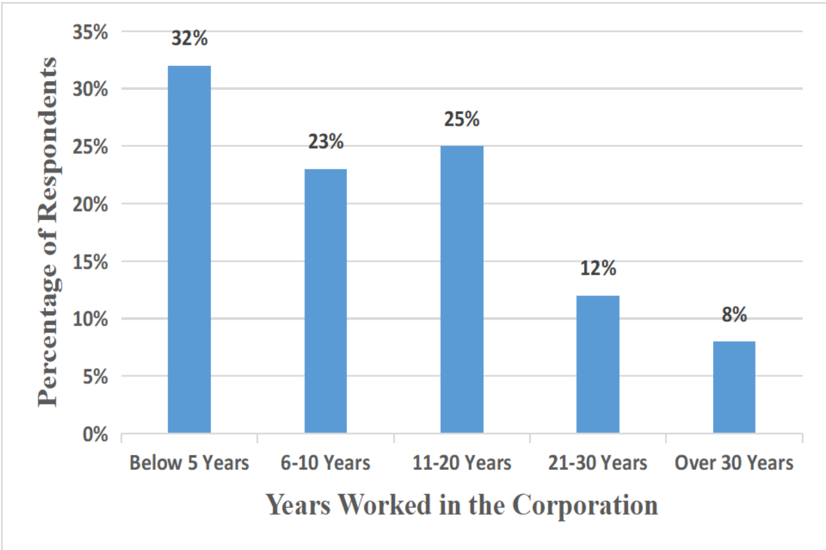

Figure 4.3: Years of Experience of Respondents

Source: Solomon Research Survey, 2023 via Excel

Educational Qualification

The study also sought to find out the highest level of education attained by the respondents. The results

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revealed that about 6% of them had obtained PhD, 28% of the respondents, had attained a master's degree, 35% of them had attained a bachelor's degree, 15% of them had attained a HND degree, 9% of them had attained ND degree while about 7% had other qualifications specified. The results are displayed in Figure 4.5.

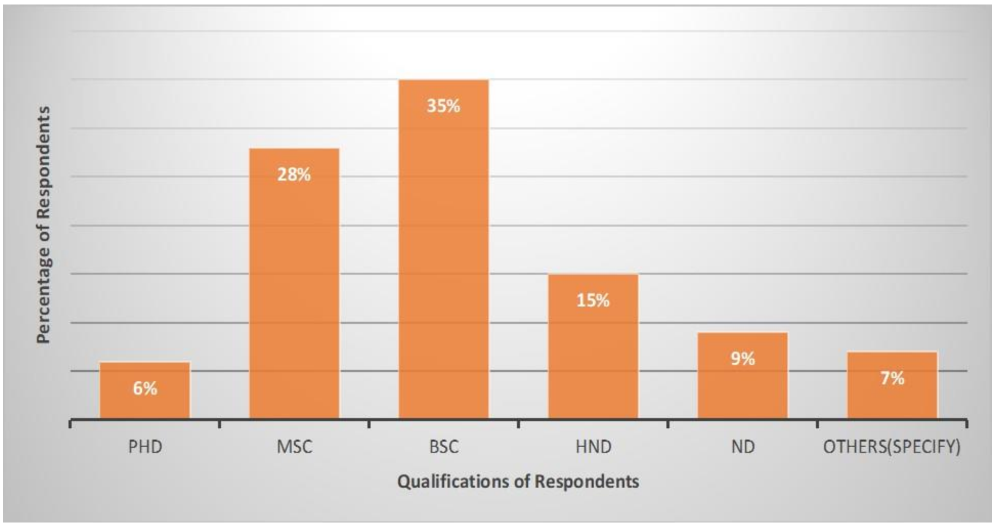

Figure 4.4: Educational Qualification of the Respondents.

Source: Solomon and Abubakar Research Survey, 2023 via Excel

Data Analysis and Results

This section presents the analysis and interpretation of data obtained from respondents through the administration of the questionnaire using descriptive inferential statistics with the aid of SPSS version 25 for the regression analysis.

Reliability Statistics

The reliability of the instrument was obtained through employing the Cronbach's Alpha coefficient which measures the internal consistency or reliability of the instrument on the questionnaire administered. This is shown in Table 1 below:

Table 1: Result on reliability

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.961	0.961	6

Source: SPSS 25 Output 2023

Interpretation: Table 1 above indicates the reliability test results for the questionnaires that were used for the study. Cronbach alpha coefficients of 0.6 point and above was used to measure the internal consistency of items in survey instruments and to gauge its reliability (Cronbach, 1951). Nunnally (1978) argues that 0.70 alpha coefficient is the most accepted. The Cronbach Alpha value for all constructs was above 0.96; therefore, meeting the accepted standard for research. That means, the internal consistency of the measures

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used in this study can be considered good for constructs.

Descriptive Statistics

Descriptive statistics allow a researcher to quantify and describe the basic characteristics of a data set and as such, serve as a starting point for data analysis, allowing researchers to organize, simplify, and summarize data.

Table 2: Descriptive Statistics Result

	Minimum	Maximum	Mean	Std. Deviation
Ethical Leadership Strategy	3	123	46	53.73
Corporate Ethical Culture	5	153	46	62.14
Risk Management Practice	6	131	46	59.32
Improper Revenue Recognition	5	171	46	58.61

Source: SPSS 25 Output 2023

Interpretation: The above table 2 indicated that all the variables have an average of 52 with a minimum of 3,5,6 and 5 respectively. They also have standard deviation of 53.73, 62.14, 59.32 and 58.61 respectively. This has meaningfully conveyed the descriptive characteristices of the dependent and independent variable of the study.

Correlation Analysis

Pearson Product Moment correlation analysis was employed at 95% confidence level with the aid of Statistics Package for Social Sciences (SPSS) 25. The table below presents the correlation analysis results in a correlation matrix with all the variables in this study.

Table 3: Extract of Correlations Matrix Results

Correlations

Variables		ELS	CEC	RMP	IRR
ELS	Pearson Correlation	1			
	Sig. (2-tailed)				
CEC	Pearson Correlation	.994**	1		
	Sig. (2-tailed)	0.001			
RMP	Pearson Correlation	.980**	.956*	1	
	Sig. (2-tailed)	0.003	0.011		
IRR	Pearson Correlation	.997**	.997**	.969**	1
	Sig. (2-tailed)	0	0	0.007	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS 25 Output 2023

Interpretation: The correlation matrix results of table 3 above indicated that ELS (Ethical leadership

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strategy), CEC (corporate ethical culture) and RMP (risk management practices) had strong positive relationship with (IRR) as flagged by the coefficients of 0.997, 0.997 & 0.969 respectively. This suggests that effective tone at the top could weed out fraudulent manipulation of the financial statement in respect of improper revenue recognition (IRR) for the benefit of the users of financial statement to make an informed economic decisions.

Regression Analysis

Multiple regression model was adopted and used for the analysis know the relationship between the predictor and criterion variables of the study. The statistics tested for include regression equation for the variables, coefficient of determination (R^2), t-test, f-test and Durbin Watson (DW) statistics. The Statistics Package for Social Sciences (SPSS) version 25 was used to run the analysis.

Table 4: Regression result between tone at the top and financial statement fraud of quoted manufacturing companies in Nigeria.

Model	Unstandardized Coefficients		Standardized Coefficients	T-statistic	Sig.Value
	β	Std. Error	Beta		
(Constant)	2.321	4.432		0.524	0.637
ELS	0.884	0.128	0.970	6.903	0.006
CEC	1.11	0.057	0.996	19.536	.000
RMP	0.858	0.092	0.983	9.273	0.003

Dependent variable: IRR

R 0.999

R^2 0.998

ADJ. R^2 0.991

F- Statistics 142.281

Sig. 0.000

Durbin Watson 3.134

Source: SPSS output, 2023

Interpretation: Table 4 shows the regression analysis of the dependent and independent variables. It indicates the multiple linear correlation coefficient (R), the coefficient of determination (R^2), the variance (Adjusted R^2), Durbin Watson and F-statistics. The regression value of 0.999 indicates that there is a very strong relationship between the dependent and the joint independent variables. The R^2 value of 0.998 shows that the estimated model explains changes in fraud reduction to the tune of about 99.8%.

The Durbin- Watson value reported in the regression in the regression table above indicates whether or not there is the presence of autocorrelation in the error term. Norusis (1999) asserts that Durbin-Watson value between “1.50- 2.50 and above” indicates the absence of autocorrelation. Since the Durbin-Watson value reported in the regression result is ‘3.134’, it can be concluded that there is the absence of autocorrelation in

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the error term of the model, signifying that the model can be used for predicting financial statement fraud reduction in Nigerian manufacturing companies.

The F-statistics value presented in the regression results table above allows an evaluation of the statistical significance of the estimated model. Based on the F-statistics criterion and its significant associated value. Using this statistics ($F = 142.281$, sig. = 0.000). this implies that the model is a good fit for this study.

Discussion of Research Findings

The study examined the relationship between tone at the top and financial statement fraud in Nigerian quoted manufacturing companies. The following findings below were established.

Ethical leadership strategy flagged by ($\beta = 0.970$, $t = 6.903$, $p = 0.006$) was found significantly and positively correlated with financial statement fraud reduction in the Nigerian manufacturing companies. Therefore, HO_1 was not supported and this suggests that ethical leadership strategy will aid financial statement fraud reduction in the Nigerian manufacturing sector if the manufacturing companies staff are ethically-oriented. The finding was not in tandem with the study of **Okoro & Onyebueke (2021)** who examined fraud detection, prevention, control, and investigation in Nigeria financial sector and found that personal ethics do not influence fraud.

Similarly, the findings also revealed that Corporate ethical culture had the larger standardized beta coefficient ($\beta = 0.996$, $t= 19.536$, $p= 0.000$). This finding implies that top management should develop a strong ethical code which all the staff working in the manufacturing companies must adopt. Therefore, HO_2 was rejected implying that the corporate ethical culture to fraud will result in a lower occurrence of financial statement fraud reduction in the Nigerian manufacturing sector. The result of this hypothesis supports the view of **Joseph (2020)** who assessed the effect of tone at the top on fraud prevention in Ghana were the ethical value is crucial to mitigate employee fraud.

Finally, the findings further shown that risk management practices had strong significant and positive relationship with financial statement fraud in the Nigerian manufacturing companies as depicted by the coefficients ($\beta = 0.983$, $t= 9.273$, $p= 0.003$). This finding demonstrated that risk management practices has the potential to mitigate fraudulent practices by the fraudsters. Therefore, HO_3 was rejected meaning that the risk management practices will curb financial statement fraud reduction in the Nigerian manufacturing sector. The result of this hypothesis supports the view of Said, Alam, Ramli and Rafidi (2017) that ethical value is crucial to mitigate employee fraud.

CONCLUSIONS AND RECOMMENDATIONS

This study investigated tone at the top and financial statement fraud in Nigerian quoted manufacturing companies. The results suggest that ethical leadership strategy between staff and top management of Nigerian quoted manufacturing companies will lower fraudulent activities in any organisation, especially the manufacturing sector. The study also established that the presence of a practical corporate ethical culture would reduce fraud in the manufacturing companies. Furthermore, the study equally showcased that the practice of risk management would reduce fraud in the manufacturing companies. In line with the revelations of this study, certain recommendations are pertinent to policymakers of the manufacturing companies. First and foremost, there is the need for policymakers to prompt manufacturing companies in the country to develop or strategise a tone at the top with strong ethical approach where employees will be trained and re-trained on the need always to do what is rightful and needful at every moment in the society and workplace. Secondly, parents should give their wards very good upbringing so that they can be useful in society. With this kind of culture, society will be free from all social vices such as fraud.

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