The Study of Behavioral Surveillance, Accounting and Surveillance the Quality of Corporate

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ABSTRACT

Behavioral accountability is deeply rooted in what this author refers to as behavioral and ethical accountability. 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. The article explores the concepts of behavioral surveillance 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 surveillance in general and corporate surveillance in particular is dependent on the behavioral effectiveness of those who govern and manage. That surveillance 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 surveillance 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.

INTRODUCTION

Behavioral accountability is deeply rooted in what this author refers to as behavioral and ethical surveillance. 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 surveillance, just as no nation succeeds without the proper surveillance of its political and economic institutions. Since surveillance 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’ surveillance. 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

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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 surveillance in general and corporate surveillance in particular, is dependent on the behavioral effectiveness of those who govern and manage. That surveillance 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 surveillance and accountability.

What is behavioral surveillance?

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 surveillance 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 surveillance, behavioral surveillance 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 surveillance?

First, it is important we define corporate surveillance briefly in order to take our bearing on accountability and accounting, as they affect corporate surveillance behavior. The Guardian (August 25, 2010) argues that, the simple idea of corporate surveillance is about building confidence in your product, erected on the foundation of transparency and accountability, good corporate surveillance flowed from practices that involved fairness, accountability, responsibility and transparency on a foundation of intellectual honesty. In its simplest definition, corporate surveillance 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 surveillance 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 surveillance 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 Surveillance ” defines corporate surveillance 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 surveillance 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 surveillance 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 surveillance. Sheng (2000) admits that an important theme of corporate surveillance 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 surveillance 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, surveillance 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 share-holders. Stone et al. (2010) have listed eight types of accountability to include:

1. Moral accountability
by their raw nature, these lower emotions are not bad but the interpretations we give to them 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 procure our 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. 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”.

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.

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 impost may be kept in cash or in a ban account specially meant for that purpose. A common impost account fraud, involves “borrowing” from the impost. 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 impost account balances are not counted and reconciled to relevant records, at regular and random intervals by independent persons. Some impost 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. 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.

v. 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.

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.

Faithfulness to core organizational values:
Accountability is an all-pervading and permeating issue in corporate surveillance. 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 surveillance importance of faithfulness to core organizational values is mentioned by Heinz Weihrich 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. This is exacerbated by their incenses teeny and selfishness, in the application and observance of these values.

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.

Conclusion:
This work explores the concepts of behavioral surveillance 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 surveillance in general and corporate surveillance in particular, is dependent on the behavioral effectiveness of those who govern and manage. That surveillance 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 surveillance 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.

REFERENCES