STAKEHOLDERS' PERCEPTION OF THE ROLES OF ACCOUNTANTS IN CORPORATE FAILURE

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ABSTRACT

This study investigated the perception of stakeholders on the roles of accountants in corporate failure with a particular attention on the listed banks in Nigeria. A survey research was carried out on the opinion of 200 respondents that were drawn from different group of stakeholders associated with the listed banks in Nigeria. The results revealed that accountants played a significant role in the failure of many corporate organizations in Nigeria. It is therefore recommended that code of ethics for Nigerian accountants should be strengthened to enable the accountants behave ethically in their various organizations.

Keywords: Corporate failure, Accountants, Accounting Scandal, Stakeholders.

INTRODUCTION

Ajibolade (2008) and Coffee (2002) both described Accountants as the watchdog of the society. In that case, accountants are saddle with the responsibility of adding credibility to the financial statements prepared by the management to provide information to owners of business and numerous other users of financial statements. Glautier (2001) suggested that right from the beginning of the profession, Accountants serve as stewards to owners of wealth by providing means of safeguarding the wealth from embezzlement. The Accountants also render accounts periodically as stewards to the owners of business, and this notion still lies at the root of financial reporting today. The industrial expansion in the early part of the nineteenth century necessitated access to large amounts of capital. This led to the advent of the Joint Stock Company, which enables the public to provide capital in return for shares in the assets and the profits of the company. As a result of this, the parliament restated the doctrine of stewardship in a legal form, making the disclosure of information to shareholders a condition attached to the privilege of joint-stock status and of limited liability (Glautier and Underdown, 2001:4-5). The information which is provided by Accountants is in the form of financial statement as well as an expression of opinion in the form of audit report.

Hendriksen (2001), Pandey(2004) and Okezie (2007) opined that Accountants are to provide financial reports that will be useful to present and potential investors, creditors and other users for making rational investment decisions, credit decision and financial decisions (Hendriksen, 2001:127, Pandey, 2004:477, Okezie, 2007:36). The financial report should provide information about the economic resources of an enterprise, the obligations and performance of the enterprise. The financial information must possess some qualities such as relevance and reliability, comparability and consistency. Relevance is the capacity of information to affect a decision. It can be relevant in two ways. First to directly help a decision maker predict future outcomes and secondly to help users confirm or revise beliefs or expectations. Information must be reliable. To be reliable it must be verifiable, representational, faithful and neutral (Wild, *et al.* 2003:75).

Corruption in the business environment seems to be the order of the day in most societies today. This has affected the reliability of information in the financial statement. In Nigeria cases of Cadbury Nigeria PLC, Lever Brothers, Dunlop Nigeria PLC and African Petroleum PLC and in other countries, cases of Enron Corporation, Tyco, WorldCom, Adelphia, Xerox, Global Crossing and Bristol-Myers- all indicate corporate scandals resulting from corrupt practices in organizations.These cases of corporate scandals and collapses were allegedly a result of fraud in organizations. Management of the companies were found to engage in fraudulent activities and relied on Accountants to cover up their fraud through the preparation of fraudulent financial report and expression of ingenuine opinion, thereby misleading the users and investing public (Ajibolade and Ogundele, 2006:4, Coffee, 2002:4, and Riahi-Belkaoui, 2002:4). Accountants who are providers of reliable information are being implicated in these scandals which have cost the investing public huge financial losses. Elias (2005), Bratton (2004) and Levitt (2002) all agreed that corporate scandals have made users lose confidence in corporate report prepared by Accountants (Elias, 2005:1-3, Bratton, 2004:5, Levitt, 2002:1-3). The fraudulent financial reports undermine the integrity of employees and other parties involves in the preparation of the financial reports.

Corporate scandals have made public confidence in corporate behaviour to shake repeatedly. The stakeholders included in this research are Shareholders, Financial analysts, Employees, Potential investors, Stockbrokers, and Creditors. To this end this research examines the roles of accountants in corporate failure.

LITERATURE REVIEW

Corporate Failure

Companies are majorly formed to make profit and to exist in the foreseeable future even if the owners are no more in existence. But it has been observed that many of the companies have failed. Corporate failure according to Schiler(2006),is a situation when a company is having decline profits, working capital, liquidity, asset quality, arrears, interest and loan repayment, delay in payment to suppliers, staff and other creditors and implementation of some form of other creditors and implementation of some austerity. In Nigeria, many companies like the plastic giant, mettaplastical and retail companies in the past have witnessed corporate failure. Ajayi(2007) and Umunnaehila(2001) reported that out of the total of 120 banks licensed in 1992, many of the banks liquidated. 47 banks in 1996, were adjudged distressed out of which 35 were critically distressed.

Causes of Corporate Failure

Umunnaehila (2001) from his study concluded that management is the major cause of failure in companies. Other factors according to Matson (2006:34) are deficient technology, complementary assets, market competition, immoral business practices, and financial needs. Pitt (1982) cited in Okaro(2004), is of the opinion that high proportion of business fail due to fund shortage. Other factors could be due to deficient technology, complementary assets, market competition, immoral business practice, the business practice, financial need. Soti Hamid and Nassir (2003) noted prior studies that have documented various factors that cause companies to succumb to failure such as: inadequate funding**,** Bad management, Company's age (younger firms would face greater risk of failure), inefficient marketing, Poor location, Slump in industry performance, Financial problem (high leveraged and insufficient capital), Bad economic condition, Fraud, Lack of control and,Bad luck (Sori 1-lamid and Nassir, 2003 :3). Bickerdyke. Lattimore and Madge (2000) also mentioned the following factors as causes of failure: Excessive interest, Lack of capital, Lack of business ability. Economic conditions, inability to collect debts and Failure to keep proper books (Bickerdyke et al. 2000:10). Usman (2004) opined that many banks in Nigeria that were distressed were due to the following factors Huge volume of non performing loans, Poor credit administration, Poor loan recovery, Squabbles within and between boards and managements, Poor quality staffing, Cut throat competition, High level of frauds, In-disciple and, disloyalty due to poor internal control, Poor credit policies.

Accounting Scandal

According to Tiscini and Donato (2006), common aspect characterizing the past scandals is the relevant of corporate reporting failure, as shown by the willingness of corporate managers to inflate financial results either by overstating revenues or by understating costs, or to divert company funds to private uses. Another aspect of the recent corporate failure has been the collective failure of corporate governance mechanism to detect financial misreporting and to prevent sudden corporate debacles (Tiscini and Donato, 2006:1). Rezaee (2002) described accounting and financial fraud as the deliberate misstatement or omission of amounts or disclosures in financial statements to deceive financial statement users, particularly investors and creditors (Rezaee, 2002: 6). The concept of accounting fraud can also be expressed like manipulated earnings or accounting irregularities. Young (2001) in Tiscini and Donato (2006) divided financial misstatements into two categories: errors and irregularities (Tiscini and Donato. 2006:3)). While Okezie (2007) divided financial misstatement into two: misstatement arising from fraudulent financial reporting and misstatement arising from misappropriation of assets (Okezie, 2007:39). According to Tiscini and Donato (2006). Misstatements from errors are described to be accidental inaccuracies: and misstatements from irregularities are described to be inaccuracies that are deliberate. When a firm finds an accounting accidental error, it does its best to fix it and it does not have generally negative consequences. On the contrary, an accounting irregularity is not an accidental mistake that implies that someone is lying. The concept of fraudulent earnings makes sense just if it is related to “true earnings. What are true earnings? A true statement, for business people, is something corresponding to reality or facts. Usually, earnings reported by corporations and used by investors and managers are imprecise numbers based on multiple assumptions and subjective estimates. This does not mean that financial reports are useless. But just that it is important to set a standard for useful and high quality earnings. External financial information is the principal tool to manage the complex relations between firms and a large group of stakeholders with different characteristics, interests and cognitive objectives. As a matter of fact, frauds victims’ groups are broad. The victims can be insiders (like employees, audit committees, internal auditors. managers suffering a reputation loss) and/or outsiders (like investors, creditors, customers. suppliers. external auditors) (Tiscini and donato. 2006: 3).

Okezie (2007) described misstatement arising from misappropriation of assets as the theft or defalcation, including the theft of an entity’s assets where the affect of the theft causes the financial statements in all material respects. Not to be in conformity with Generally Accepted Accounting principles (GAAP) (Okezie. 2007:40). Hernraj (2004) and Okezie (2007) opined that misstatement arising from fraudulent financial report can be committed through the following tools:

i. Falsification, alteration or manipulation of material financial records, supporting documents, or business transactions (Hernrai 2004:41 and Okezie, 2007:40):

ii. Material intentional omissions or misrepresentations of events, transactions, accounts, or other significant information from which financial statements are prepared (Henrai 2004: 4 land Okezie. 2007:40);
iii. Deliberate misapplication of accounting principles, policies, and procedures used to measure, recognize, report and disclose economic events and business transactions(Herirai 2004 :40 and Okezie, 2007:40)
iv. Intentional omission of disclosures or presentation of inadequate disclosures regarding accounting principles and policies and related financial amounts (Henraj, 2004:41). He further divided fraud into two categories: management frauds and employee frauds. Management frauds may be more difficult to detect due to collusion; if a small mistake is not rectified when it is discovered, it can become a fraud. Some of the causes that enable fraud to occur include failure to allocate responsibility for its prevention.

RESEARCH METHODOLOGY

The study adopted the survey research design. According to Kothari (2014), survey research is a form of research design where the research draw conclusion on a subject based on the respondents' opinion. The targeted population of this research includes Shareholders and Investors, Employees, Managers and Directors, Stockbrokers and Accountants and Auditors of the selected companies where a sample oftwo hundred respondents was selected with the use of stratified and simple random sampling techniques. The proposed sample was identified by using business directives, news magazine and the internet.

TABLE 3.1 Proposed Distribution of Sample Size

Type	Sample Size	% of Total Sample Size
Shareholders and Investors	40	20
Employees	40	20
Managers and Directors	40	20
Stockbrokers	40	20
Accountants and Auditors	40	20
Total	**200**	**100%**

The statistical tools intended to be used for the analysis are Percentage, Chi Square and Analysis of Variance (ANOVA).

Simple percentages will be used to measure the proportion of the respondents that give the same answer to a question. It shall be used to analyse the questions in each section. This will reveal the extent to which the respondents agree or disagree with each of the questions.

Chi-Square Test

Chi Square tests shall be used to test each of the hypotheses. Chi square distributions are used specifically when:

i. Contingency tables are given to test for association and independence;
ii. To test for goodness of fit of a given sample whether it conforms to normal distribution, Poisson distribution or a perceived distribution pattern
iii. It is necessary to test for population variance when sample is given.

The formula for Chi-square $(x^2)$is given below:

$$x^2 \quad = \quad \Sigma \frac{(O-E)^2}{E}$$

Where O = observed frequency
E = expected frequency
$\sum$ = summation

The degree of freedom (df) is obtained as follows: (R-1) (C-1)

Where R = number of rows
C = number of columns
I = a constant

The level of significance adopted for test is 5% or 0.05 with a confidence interval of (95%) (Ifah, 1996:34).

Analysis of Variance

Analysis of Variance will enable the researcher to reduce the probability of committing a type one error and in addition to conserve time and labour by comparing all sample means simultaneously. Statistical Package for Social Science version15.0 (SPSS) will be used to run the statistical tools.

It will be computed using the formula below:

$$F = \frac{\text{explained variance}}{\text{unexplained variance}},$$

or

$$F = \frac{\text{between-group variability}}{\text{within-group variability}}.$$

The "explained variance", or "between-group variability" is

$$\sum_i n_i(\bar{Y}_{i\cdot} - \bar{Y})^2/(K-1)$$

Where

F = output of analysis of variance

Y_{ij} = is the j^{th} observation in the i^{th} out of K groups,

$\bar{Y}_{i\cdot}$ = the sample mean in the i^{th} group,

n_i = the number of observations in the i^{th} group,

$\bar{Y}$ = the overall mean of the data.

The "unexplained variance" or "within-group variability" is

$$\sum_{ij}(Y_{ij} - \bar{Y}_{i\cdot})^2/(N-K),$$

where

N = is the overall sample size.(Wikipedia, 2009)

RESULTS AND DISCUSSION

Table 4.1 frequency distribution on the opinion of stakeholders on the causes of corporate failure.

	Frequency	Percentage(%)	Valid percent (%)	Cumulative percentage
SD	3	1.9	2.0	2.0
D	10	6.5	6.6	8.6
U	9	5.8	6.0	14.6
A	57	37.7	37.7	52.3
SA	72	47.7	47.7	100.0
TOTAL	151	98.1	100	
MISSING	3	1.9		

SOURCE : SPSS OUTPUT

Where: SA-strongly Agree, A-Agree, D-Undecided, D-Disagree, SD- Strongly Disagree
From table 4.1: Above, one hundred and twenty-nine (129) respondents representing 83.8% of the sample size agreed that accountants played a significant role in corporate failure.
The hypothesis shall be tested with Chi-square using SPSS version 17.0. Below is the result of the test

TABLE 4.2: chi-square output of opinion of respondents on the roles of accountants in corporate failure

	Observed N	Expected N	Residual
SD	3	30.2	-27.2
D	10	30.2	20.2
D	9	30.2	21.2
A	57	30.2	26.8
SA	72	30.2	41.8
TOTAL	151		

Where: Strongly Agree, A-Agree, U-Undecided, D-Disagree, SD-Strongly Disagree
From table 4.2 above the expected number is 30.2 each but strongly agreed has the highest observed number of seventy-two

TABLE 4.3: OUTPUT OF CHI-SQUARE

	Corporate failure has negative impact on the image of the accounting profession
Chi-Square df asymp.sig	13.530 4 .000

a.0cells.(0%) have expected frequency less than 5. the minimum expected cell frequency is 30.2

The degree of freedom=4 at 0.05 level of significance
Probability (P) =.000 -) Decision rule: reject the null hypothesis when the probability value is less than the level ofsignificance. Since the probability is less than the level of significance therefore reject the null hypothesis. Decision: base on the analysis, it can be inferred that

accountants played a significant role in corporate failure in the listed banks in Nigeria.

CONCLUSION

The findings of this work have been derived from the answers to the research questions tested. A cross sectional survey was conducted to capture the opinion of investors, employees, managers, directors, accountant, and auditors. A total of two hundred respondents were sampled and used in the conduct of the research. One hundred and fifty-four copies of the questionnaire were returned back. Both descriptive and inferential statistics were used in the research. The opinions gathered were used to test the research hypotheses and to answer the research questions. The tests of hypotheses were done using SPSS 17.0. The outcome of the tests revealed that among many factors that are capable of causing corporate failure most of the respondents agreed that role of accountant is a significant factor capable of causing corporate failure. This can be supported by the results of test of hypothesis using chi-Square which revealed that accountants contributed significantly to corporate failure. It is therefore recommended that code of ethics for Nigerian accountants should be strengthened to enable the accountants behave ethically in their various organizations.

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