

PSYCHOLOGICAL PROFILE OF THE ACCOUNTANT FRAUDSTER

Alin Chelariu

"Alexandru Ioan Cuza" University, Doctoral School of Economics and Business Administration, Accounting, Iași, Romania
alin_chelariu@yahoo.com

Abstract: *Corrupted professional accountants are vital for planning, creating and hiding financial fraud. No financial fraud can be made without help from an expert in Accounting. Through this paper we try to raise awareness of the necessity of having ethical professional accountants and we promote rigorous psychological testing for candidates to the Accounting profession. The purpose of this paper is to present a psychological profile of a fraudster in the field of Accounting and recommended profiles for the candidates to the profession. We presented the fraud triangle of opportunity, motivation and rationalization so we can begin to enter the mind of the accountant fraudster. Then we presented the profile of the character prone to financial fraud as shown in Accounting literature. Further, we presented psychological tests backed by specialty literature that could be useful to select candidates fit for the Accounting profession. The literature presents us with recommended psychological profiles for the professional accountants. A great psychological test used for hiring in the Accounting profession is the Keirsey Temperament Sorter II, used by the government, military, universities, non profit organizations and religious organizations in the USA. The recommended personality types for Accounting are the supervisors and inspectors from the guardians branch for low ranking accountants and the fieldmarshals and masterminds from the rationals branch for high ranking accountants.*

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1. Introduction

The Accounting profession demands ethical behaviour and performance from its members. Not only the existence but also the compliance with the existing Code of Ethics is required from the professional accountants.

The existence of a Code of Ethics does not mean all professional accountants will comply with it hence the necessity for having professional accountants with an ethical character, wanting to behave in an ethical manner and willing to report and punish the members who break the Code of Ethics. It is more than just appearing ethical in the eyes of the public. The very vigour and attractiveness of an economy and in equal measure business credibility depend essentially on the quality of the human factor. Avoiding problems related to culture, ethics and professionalism, morality and good conduct turns the business world into a 'jungle' of the economically strong.

As a response to the financial scandals, governments around the world have reacted by increasing regulation in the Accounting profession. The accounting profession is one of the most regulated professions in the world. Some authors (Horomnea, 2013) consider the profession to be over-regulated. Excessive regulation does not prevent all unethical behaviour but it certainly restricts achieving a true and fair view, the target of the accounting profession.

2. The fraud triangle

Fraud is considered a disease by specialty literature authors. (Robu, 2013) says that in order to counter fraud we must know the origin of fraud, we must determine the factors of fraud, the operating mechanism of fraud, the profile of the fraudster and the profile of the defrauded. Following this course of action, measures of fraud detection and fraud prevention can be found. In this paper we will be focusing more on the profile of the fraudster.



Figure 1: The fraud triangle

Source: <http://controls.ucmerced.edu/Pages/Fraud-Triangle.aspx>

Opportunity starts from the fraudster's belief that he or she will not be caught if fraud is committed. This belief can be generated by identifying weaknesses of internal audit and controls. In times of crisis the management focuses on company survival and disregard internal audit and controls. Adapting the internal control system of a company to a new economic context is delayed and this fact can be exploited.

Motivation is a very important factor and it manifests such as: financial needs, the need to report results that are superior to the actual results of the company so that the fraudster can receive a bonus for being an efficient manager, professional aspirations and the need for their fast achievement, the competitive environment of the fraudster's profession, the personal desire to beat the system. Fraudulent financial reporting is more likely to increase in times of crisis.

Rationalization. Fraudsters feel the need to justify their actions. Their justifications are like the following: the fraudulent financial reporting is beneficial to the company, there were no other options in the time period the fraud was committed and that it was just a temporary solution. Surprisingly, the fraudsters are in many cases persons who proved their professional value and moral integrity in the past. Committing fraud requires the participation of top management, chief accountant and people with powers of control in a company as well as low ranked accounting staff. (Stanciu, 2011)

We must also take notice of the difference between creative accounting and financial fraud. Creative accounting involves accounting practices adapted to the company and the evolution of the economic activity of the company. It relies on a speculation of the lack, ambiguity, and flexibility of laws, accounting norms and regulations. Creative accounting respects the law but not its spirit. The purpose of creative accounting is to present a distorted image of a company, prosperous and attractive in order to mislead and draw in investors and to get bank credits easier and cheaper. It can also be used to present the

company to the state tax collector institutions as being on the brink of bankruptcy so as to reduce amount of taxes paid. On the other hand, fraud is a clear violation of accounting regulations and principles, also violating the law. (Horomnea et al., 2012)

3. Psychology of the character prone to financial fraud

Favouring circumstances must exist for fraud to happen. One of the most important, if not the most important circumstance is the having a high rank in a company. A position of superior hierarchy offers responsibilities and powers such as: the ability to control much of the staff and the ability to control transactions performed by the respective company. Most frauds are committed by directors. A perpetrator must be a person with great intellectual capacity, experience, culture and specialty culture as well as creativity, strong pride, self confidence and ambition. It must also be noted that the fraudster must have detailed knowledge of the respective company, knowledge of the workings of internal audit and controls their weaknesses. This person is attracted to adventure and risky situations and has the ability to lie easily, to dominate and persuade staff members to assist in masking the fraud. One such person is not likely to crack due to stress and does not have remorse for committing fraud. (Horomnea, 2012)

4. Psychological tests

The questionnaire is the instrument often used for a psychological test. The specialty literature presents us with examples of studies regarding the application of questionnaires for psychological testing on professional accountants or future professional accountants:

- Nourayi and Cherry (1993) discovered that Sensing type (or S type) personality students have increased school performance compared to Intuition type (or I type) personality students;
- Landry et al. (1996) discovered that most Sensing-Thinking-Judgement (or STJ) students have high computer skills, skills needed to be competitive in the accounting profession;
- Schackleton (1980) and Jacoby (1981) used the KTS tool to research personality types for accounting practitioners and they found out that most practitioners are ISTJ type (short for Intuition-Sensing-Thinking-Judgement);
- Wolk and Nikolai (1997) found that Accounting undergraduates are mostly ESTJs while most graduates and Accounting professors are STJs;
- Bealing et al. (2006) used the KTS questionnaire on a sample of 127 Accounting students and confirmed that the great majority of Accounting undergraduates are ESTJs.

4.1. The Myers-Briggs Type Indicator

This test is based on the theory proposed by Carl Gustav Jung. It is a research tool which uses a questionnaire of 120 questions from the following areas: introverted/extroverted, sensing/intuition, thinking/feeling and perception/judgement. According to him, humans can be classified in 16 groups of behavioural patterns. The patterns are obtained by combining four psychological functions, based on individual preferences:

- Extroversion (E)-Introversion (I), it refers to the preference for the outer world or for the inner world and how the person restores energy (by being alone or by socializing);
- Sensing (S)-Intuition (N), it refers to the favourite method for obtaining information about the world around us;
- Thinking (T)-Feeling (F), meaning the favourite way of taking decisions;
- Judgement (J)-Perception (P), or the person's view on surrounding world and exterior events (a person may choose between a structured and planned life or a

flexible and adaptable life).

The preferences are personal, long lasting and no option can be considered to be right or wrong. We have to also consider the influence of the social environment, personal choices, personal qualities and flaws if we are to make a complete psychological description of a person. We can't take into account in this study all the social influences, the personal choices and personal qualities and flaws of a person so this is a limitation of the current study.

4.2. The Keirsey Temperament Sorter

Keirsey and Bates (1978) created a questionnaire for the means of psychological testing and called it the Keirsey Temperament Sorter (or KTS). The KTS II questionnaire is an up to date, improved version of the initial KTS questionnaire. Keirsey, in the making of this instrument started from the ancient studies of Plato and Hippocrates and also considered the improvement of the Myers-Briggs Type Indicator (MBTI) questionnaire. The KTS test is now very popular and widely used by the government, military, universities, non profit organizations and religious organizations in the USA. Keirsey classified human behaviour in four: artisan, guardian, rational and idealist.

For the KTS test, people must answer all questions and should try to offer real behaviour answers and not desired behaviour answers. The respondent have to be informed that there are no right or wrong answers and that statistically 50% of the population will agree with him or her. The actions mentioned earlier must be taken because people will often offer an answer accepted or desired by the community in which the respondent lives, fearing critics or persecution from others in the community. It is a problem called the "desirable social model". In order to overcome this psychological barrier, a respondent is often asked to offer the answers which one of his or her colleagues would offer. (Randal & Fernandes, 1991).

ARTISAN	GUARDIAN	RATIONAL	IDEALIST
Promoter (ESTP)	Supervisor (ESTJ)	Fieldmarshal (ENTJ)	Teacher (ENFJ)
Crafter (ISTP)	Inspector (ISTJ)	Mastermind (INTJ)	Counselor (INFJ)
Performer (ESFP)	Provider (ESFJ)	Inventor (ENTP)	Champion (ENFP)
Composer (ISFP)	Protector (ISFJ)	Architect (INTP)	Healer (INFP)

Figure 1: Keirsey's human behaviour classification

Source: <http://www.keirsey.com/aboutkts2.aspx>

4.3. Differences between the MBTI and KTS tests

Myers created his test by focusing on what people think and feel while Keirsey and Bates created their test focusing on behaviour, which can be observed;

Myers created his test based on the work of Carl Gustav Jung and focused on the Extroversion (E)-Introversion (I) dichotomy. On the other hand, Keirsey and Bates started from the ancient works of Plato and Hippocrates and focused on the Sensing (S) – Intuition (N) dichotomy;

Myers classified behavioural types by psychological functions while Keirsey classified them by temperament;

Myers test is a linear model with four factors/ psychological functions. On the other hand, Keirsey's test is a bit more complicated system.

The KTS questionnaire has fewer questions than the MBTI questionnaire. According to their authors, the KTS II improved questionnaire can be completed in 20 minutes. Also, respondents have access to individual answers. In the case of MBTI questionnaire, respondents had access only to the general score.

Another advantage of using the KTS questionnaire instead of the MBTI one is lower costs for the researchers.

4.4. Recommended psychological profiles for Accounting

The guardians are models of stability and fit to serve in social institutions. They have an innate talent for managing goods and services. They are hardworking but prefer to work in a constant rhythm in the existing system and don't like change. They are disciplined and helpful. They tend to accomplish their duties, are cautious and respect authority. They are practical people, thorough and punctual and desire for procedures to be respected and they don't mind teamwork. Around 40-45% of the world current population is made of guardians and they work in the professions and jobs most needed by human society.

In the specialty literature, authors like the ones mentioned at the beginning of the Psychological tests section state that most professional Accountants are STJ types, supervisors (ESTJ) and inspectors (ISTJ), which are subgroups of the guardians family. According to Bealing et al. (2006) ESTJ personality type people, a subgroup of the guardians are fit to have financial and accounting related professions such as: auditors, credit analysts and budget analysts.

Supervisors (ESTJ) tend to associate with others and become leaders. They feel comfortable as leaders and in return cooperate easily with their own leaders. From their point of view, a position of high hierarchy offers not only powers but responsibility as well and they assume responsibility easily. They are skilled at organization and inventory. They judge people on the basis of compliance with programs and procedures. Only 10% of the world's current population is considered to be represented by supervisors.

Inspectors (ISTJ) are responsible. They like to see responsibility in other people as well. They respect laws and regulations more than any other personality type. Not only do they hate unauthorized behaviour in an institution but try to make sure the laws and regulations are respected. They do not hesitate to report violations of laws, rules and regulations of any kind. They are perseverant, committed to their duties and appreciate people who know their duties and fulfil them. They keep their work environment clean and in order. They are less talkative and less social than supervisors. They tend to wear simple clothing and not be noticed. Only 10% of the world's current population is considered to be represented by inspectors.

Most people who work in accounting are STJ types and many who work in the field of Economics are also STJ types but they do not reach the top of the hierarchy in a company. Those who do reach top hierarchy in a company, such as an audit company are people with the NTJ personality type. The field marshal (ENTJ) and the mastermind (INTJ) are branches of the rationals.

The rationals focus on problem solving and system analysis. They are interested in abstract concepts, in complex systems such as computers and social systems such as companies and government. They are pragmatic, skeptical, reserved, ingenious, independent and have a strong will. They believe in logic and seek knowledge and achievements. They appreciate intelligence and put value on technology. The rationals disregard authority, they do not care for political correctness, being polite, do not care for customs, traditions and habits. On the other hand, they are natural born leaders. They usually seem distant and cold but are in fact focusing on solving problems. The rationals are rare, only 5-10% of the world's current population representing them.

The field marshals (ENTJ) have great capacity for strategic analysis, for defining concepts, for creating back up plans, for organization, coordination and leadership. They aim for reaching objectives and disregard rules and regulations. They are able to plan in

advance and are able to see both short term and long term objectives. They like to work based on a detailed plan. They usually act on reason and not feeling, having no remorse for firing an employee and they do not tolerate people repeating a mistake. Only 2% of humanity are considered to be fieldmarshals.

The masterminds (INTJ) excel at creating back up plans and alternative solutions to solve a problem. They are capable of understanding complex, multi staged operations. They are rarely encountered outside of their office or laboratory. They can be capable leaders but they are not thrilled to take the lead. They prefer to wait "in the shadows" until others prove their incompetence of being leaders. They consider efficiency to be vital in a company and act swiftly if they discover a waste of resources. The masterminds do not feel bound by rules and regulations and they are not impressed by authority. They are hardworking and dedicated to achieve their goals. Of all the rationals, they are the most precise in their actions and have a strong will. They find it easy to take decisions and do not rest until the problems are solved. They have a theoretical mind and always "think before they act". Only 2% of humans are considered to be masterminds.

5. In conclusion

The relationship between ethics, morality and accounting is not a theoretical speculation. Is essential to the health of the economic environment, such relationship leads to true and fair view and most importantly, it generates business partners' credibility in each other.

Referring to fraud, it is considered a disease by specialty literature authors. In order to counter fraud we must know the origin of fraud, we must determine the factors of fraud, the operating mechanism of fraud, the profile of the fraudster and the profile of the defrauded. Following this course of action, measures of fraud detection and fraud prevention can be found. The fraud triangle presents the three elements of fraud: opportunity, motivation and rationalization.

Favouring circumstances must exist for fraud to happen. One of the most important, if not the most important circumstance is the having a high rank in a company. A position of superior hierarchy offers responsibilities and powers such as: the ability to control much of the staff and the ability to control transactions performed by the respective company. Most frauds are committed by directors.

Research in Accounting and Psychology provide us with tests to find a professional accountant's personality: Myers-Briggs Type Indicator and Keirsey Temperament Sorter. We can distinguish 16 types of human behaviour. The *supervisors* and the *inspectors* are recommended as low ranking accountant and the *fieldmarshals* and *masterminds* are recommended for high ranking accountants. Most professionals and professors in the field of Accounting are STJs, even most students are ESTJs. Those who reach top management however are not STJs but NT types, with ENTJs as chief accountants and INTJs as audit partners.

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