Mitigating Financial Statement Fraud Perpetrated by Corporate Psychopaths

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This paper proposes a fraud mitigation model that focuses on corporate psychopathy's impact on material misstatement of financial statements fraud. Prior research on psychopathy and corporate psychopaths has found that people with these tendencies do not possess the need to rationalize their behavior, therefore negating the rationalization point present in most prior fraud theory models. There is ample prior research on the impact of corporate psychopaths' effect on corporate culture. There is also an abundance of prior research on fraud theory and how fraud is perpetrated. Drawing from existing research in these areas, this proposed fraud mitigation model identifies and addresses the elements present when corporate psychopaths perpetrate fraud. Board of directors will benefit from this study when they unknowingly hire leaders who exhibit corporate psychopathic traits that can impact financial reporting and internal controls procedures. Other stakeholders and the public interest may benefit from lower risk of financial statement fraud due to fewer corporate psychopaths in leadership positions perpetrating financial statement fraud.

Keywords: *Fraud theory, corporate psychopaths, financial statement fraud*

INTRODUCTION

The most significant factor in financial statement fraud is the lack of integrity in the company's senior leadership (Umar, et al., 2022). A senior leader may lack integrity because they possess corporate psychopath traits. The term corporate psychopath (CP) has evolved from the work of Hare in the early 1990s, Babiak and Hare in the mid-1990s, and Boddy in the early 2000s (Jeppesen & Leder, 2016). Psychopathy is a recognized personality disorder in people that are pathological liars, possess superficial charm, maintain a grandiose self-worth, and are callous, impulsive, and need stimulation (Hare, 1993). The nomenclature of corporate psychopath has evolved from terms such as non-violent psychopaths, organizational sociopaths, successful psychopaths, white-collar psychopaths, and other names to the recent more common term, corporate psychopath (Boddy, et al., 2021).

According to Boddy, et al. (2010) several large financial statement fraud cases were perpetrated by CPs. For example, Barry Minkow, the young CEO of the ZZZZ Best Corporation in the 1980s was described by the judge who sentenced him to prison as a man without a conscience. After serving his prison term for committing fraud as CEO of ZZZZ Best, Minkow served time in prison again for embezzling the church where he served as pastor. Other famous fraudsters who could be described as CPs include Bernie Madoff, the investment advisor who ran an elaborate long-term Ponzi scheme, Jeff Skilling, the CEO of Enron, and Elizabeth Holmes the founder and CEO of Theranos. One common thread between these fraudsters, in addition to their psychopathic traits of deceit, bullying, and superficial charm, is the age in which they began perpetrating fraud. Minkow was a teenager when he began committing fraud as CEO of

ZZZZ Best and was in his twenties when convicted. Elizabeth Holmes was in her early twenties when she claimed she had invented a new blood testing procedure that required just a few drops of blood to run the tests. She raised the capital to start and maintain Theranos by lying to and charming famous investors. Although Madoff and Skilling were older when convicted of fraud, their subordinates and victims have indicated that these two men began fraudulent activities when they were much younger but were never caught. The ACFE report to the nation on fraud (2022) found that the average age and gender of a fraudster is a 34-year-old male. The report also found that fraud perpetrated by senior-level managers takes longer to detect due to their ability to override accounting internal controls and their tendency to bully and intimidate subordinate employees (ACFE, 2022).

Research on adolescent psychopathy indicates that as adolescents mature into young adults, their psychopathic tendencies can decrease if they are living and working in a positive environment where responsibility and accountability are promoted and moral disengagement is discouraged (McCuish & Gushue, 2022). Alternatively, adolescent psychopaths can mature into adult psychopaths, both violent and non-violent such as corporate psychopaths if positive intervention is not achieved. Beckerson, et al. (2023) note that the brain significantly reorganizes structurally during adolescence into young adulthood, indicating that adolescence is likely the ideal time to mitigate psychopathic tendencies. McCuish and Gushue (2022) claim that psychopathic tendencies can emerge in childhood while LoBue, et al. (2011) found that three-year-olds can apply moral judgment. Beckerson, et al.'s (2023) study reconciles these two studies by asserting that information is processed differently in children than in adults due to the structural reorganization of the brain that occurs during adolescence.

The estimated percentage of CPs in leadership positions has increased since the turn of the century (Boddy, et al., 2021). When Boddy et al. (2010) studied CPs in the early 2000s they found about ten percent of senior leaders may be CPs. Ten years later, Holland (2020) estimated 13.5% of senior leaders may be CPs, and more recently Boddy et al.'s (2021) study showed the percentage of CPs in senior leadership to be nearly 15% of senior leaders. Many sought-after leadership skills can mirror a CP's traits. Howe, et al (2014) found a relationship between the psychopathic trait of fearless dominance and professional success of leaders in the finance sector. Hill and Scott (2019) found that job advertisements for senior level positions such as CEO, president, and chairperson were worded in such a way to attract CPs. For example, the authors found that recruitment advertisements for senior leaders use wording such as shows courage, knows self-worth, and stands by tough decisions. These sought-after leadership traits can also be found in the personalities of CPs. However, in CPs, these traits are motivated by a grandiose self-image, affinity for risk-taking and thrill seeking, and the inability to feel remorse or guilt (Hill & Scott, 2019; Boddy et al., 2021). In authentic leaders, these traits are motivated by an integrated moral identity formed through experience and reflection on past actions and decisions (Alavi, 2023). Therefore, boards of directors unknowingly hire CPs because psychopathic personality traits mirror some of the most sought-after leadership traits. In addition, a CP will likely make an excellent first impression by appearing strategically minded, confident, and demonstrating a visionary approach (Hill & Scott, 2019). The CP appears to be the perfect candidate for an organization seeking a leader who will aggressively provide results. According to Hill and Scott (2019) CPs are attracted to organizations that are in need of quick turnaround in a highly competitive market and are anxious to do whatever it takes to achieve the board of directors' sought-after financial results. However, the CP has no remorse in achieving these results unethically unfairly, and often bullying subordinates to perpetrate fraud. CPs that engage in fraud do so if they believe the risk of being detected is lower than the reward from the result of the fraud (Sheehy et al., 2021). In many corporate cultures, the risk of fraud detection is low because managers may override internal controls, or the tone at the top is not focused on ethical behavior. The ACFE (2022) reports that executives commit 23% of fraud and involves the largest losses. The report also finds that only 9% of fraud is material misstatement of financial statements. However, since investors and the public interest rely on financial statements, the stakeholders that could be victims are a much larger percentage.

Existing fraud theory models such as the fraud triangle (Cressy, 1953), the triangle of fraud action (Dorminey, et al., 2012), the fraud diamond (Wolfe & Hermanson, 2004), the five-point fraud star (Umar, et al., 2016), and the seven-point fraud star (Monteverde, 2023) do not specifically address fraud committed by CPs. The original fraud triangle developed by Cressy (1953) includes opportunity, pressure, and rationalization. The opportunity point indicates that the accounting internal controls are weak, and the fraudster has an opportunity to perpetrate fraud. The point labeled pressure indicates that the fraudster feels an external financial pressure such as the need for money to pay personal bills or support costly habits. In the case of financial statement fraud, the fraudster is pressured to show corporate profits or other positive financial statement metrics to increase share prices. The rationalization point in the original fraud triangle indicates that the fraudster feels the need to rationalize their unethical behavior. Since CPs do not feel the need to rationalize or justify unethical behavior, Cressy's fraud triangle fails to provide meaning when the fraudster is a CP. Wolfe and Hermanson's (2004) fraud diamond adds the point of capability indicating that the fraudster must understand accounting and the accounting system's controls. However, the fraud diamond maintains the original three points in the Cressy triangle and does not address the CP fraudster. Umar, et al.'s (2016) five-point fraud star model, Monteverde's (2023) seven-point fraud star, and Umar et al.'s (2022) HU-Model incorporate the idea of lack of integrity of the perpetrator. However, no fraud theory model currently focuses on fraud perpetrated specifically by CPs and the subordinates they control through fear and manipulation.

THE PROBLEM

Financial statement fraud perpetrated by CPs and their enablers using management override of accounting internal controls to manipulate the financial statements will continue to occur as long as CPs are in senior leadership positions influencing the corporate culture. No matter how robust, accounting internal controls cannot deter collusion or management override of controls (Jeppesen & Leder, 2016). CPs in senior leadership create a corporate culture of fear and do not support a culture of transparency and accountability (Laurijssen, et al. 2023). Financial statement fraud in the form of material misstatements is commonly perpetrated by CPs (Umar et al., 2022). Since CPs make up nearly 15% of senior leadership in organizations (Boddy, et al., 2021) and CPs have been found to commit the largest corporate frauds in history (Boddy et al., 2010; Boddy et al., 2021) and tend to create a toxic work culture (Laurijssen, et al. 2023) the risk of CPs perpetrating financial statement fraud continues to increase.

THE PURPOSE

The purpose of this paper is to propose a fraud model that focuses on mitigating the impact of corporate psychopathy in financial statement fraud. A fraud model that addresses CPs is needed to help mitigate large scale fraud in the form of material misstatements of financial statements perpetrated by CPs and the subordinates they control through fear, bullying, and manipulation. Utilizing a modified grounded theory approach, the proposed fraud mitigation model provides a framework for future research involving financial statement fraud perpetrated by CPs. A grounded theory research design includes participant interviews supported by the literature and other documentation to develop the theory (Creswell & Creswell, 2017). Since CPs in leadership positions are generally not agreeable to being tested for psychopathy (Laurijssen, et al., 2021), the fraud model proposed will draw on research previously conducted where random senior leaders completed surveys that tested for CP. Research conducted with interviews of those who work with CPs is also used to develop the proposed model. These studies involving interviewing the subordinates and interviewing the auditors of CPs (Holland, 2019; Jeppesen & Leder, 2016) have found relevant information that supports CPs' impact on financial reporting and the company culture. Other studies tested senior leaders for psychopathic tendencies by surveying these senior leaders through questions and scenarios that promote competition and games in which CPs are attracted to completing (Boddy et al., 2021; Laurijssen et al., 2023). These studies that were conducted with participants who are CPs used elements from instruments such as the Psychopathy Checklist-Revised (PCL-R) (Hill & Scott, 2019) and the Levenson Self-Report on Psychopathy (LSRP) based on Hare's (1993) original scale (Watson, et al., 2017). By integrating the literature on corporate psychopathy, studies where CPs were identified, and studies on moral development in adolescents with psychopathic traits, the modified grounded theory design used to develop the fraud mitigation model in this paper follows grounded theory research steps emphasized by Moustakas (1994). Specifically, the interrelationships discovered in the literature topics are integrated to develop the fraud mitigation model and are supported by the data available, the researchers' interpretations in the studies used, and other influences that impacted the previous studies (Moustakas, 1994).

SUPPORTING LITERATURE

Drawing from prior research in corporate psychopathy, fraud theory, moral development, and authentic leadership provides the basis for developing the fraud model for mitigating fraud perpetrated by CPs. The supporting literature will begin with a review of studies on CPs in leadership positions. Next, the literature on moral identity and moral development will be compared to show that CP traits begin in childhood and adolescence. Recent research indicates that training may mitigate psychopathic tendencies. Finally, the research regarding best practices to mitigate the effects on corporate culture caused by CPs' management styles will be reviewed. The review of the relevant literature will be followed by the proposed fraud mitigation model that is developed from the literature.

Corporate Psychopathy

Jeppesen and Leder (2016) interviewed auditors who had interacted with clients' management who demonstrated CP characteristics. The authors' findings confirmed that CPs do exist in leadership positions and are identifiable by auditors when interacting with client management. Sixty-nine percent of the auditors interviewed for the study had experienced working with CP client management and 70% of those had experienced working with CPs more than once. The authors suggest that their findings indicate that the CPs effect on accounting, auditing, internal controls, and fraud is worthy of research and important for audit quality. The authors' survey began by describing the traits associated with psychopathy and then asked the participant auditors ten questions regarding interactions with clients during audits with these traits in mind. Of the 69% of auditors that had worked with CP clients, 43% had experienced fraud committed by these CPs. The authors also found that the five most common traits of the CP clients were lack of responsibility for their own actions, lack of conscience, deceitfulness, a superb feeling of self-worth and lack of empathy. The findings of this study show that psychopathic behavior of management is a fraud risk for which auditors must be aware.

Boddy, et al. (2021) note that in 2005 the term corporate psychopath was not yet accepted by all academic researchers and audiences. However, various other terms in previous literature have been used to describe these non-violent psychopaths such as organizational sociopaths, non-incarcerated psychopaths, successful psychopaths, and executive or industrial psychopaths. In their 2021 study, the authors established that CPs do exist in white-collar management positions. The authors conducted a survey emailed to 638 white-collar workers with at least five years of work experience. The survey was completed by 261 participants and found that 14.8% of the participants could be considered high-functioning psychopaths, or CPs. The study used the Psychopathy Measure Management Research Version 2 (PM-MRV2) and focused survey questions on other known CP traits such as affinity for conflict, gender discrimination, and aggressive humor.

Laurijssen, et al., (2023) motivated by Boddy, et al.'s (2011) finding that 32% of white-collar workers have had a psychopathic boss conducted three studies with 277 corporate leaders participating in an online simulation game focusing on a fictitious subordinate's interactions. The authors measured the behaviors and reactions of the leaders and rated their level of corporate psychopathy based on their manipulating and controlling behaviors and responses in the simulation. The purpose of Laurijssen et al.'s (2023) study was to determine if CPs could be trained to not exhibit psychopathic tendencies when interacting with co-workers. The authors found there may be some ways in which CPs can be trained through consistency, strong accountability, and zero tolerance of unethical and dysfunctional behavior in the organization.

Holland (2020) studied the effects of dysfunctional leaders who exhibit CP traits on the overall corporate culture. The author interviewed subordinates of CPs and focused on workplace bullying over a time span of five years. The study found that CPs tend to have a close inner circle of obedient followers that support their arbitrary decisions, lack of transparency, and false accusations toward those who disagree with them. Often these obedient followers, or puppets, would enable strategies of calling meetings with no agenda but to criticize and undermine and make unsubstantiated accusations on staff that were not supportive of the CP. The effects of the CP's aggressive behavior and bullying caused high turnover, a culture of fear, and nearly a 70% loss of key senior management who left abruptly after interacting with the CP. Holland's study calls for human resource management and boards of directors to take note of the long-term effects of CPs who are allowed to continue their dysfunctional behavior in the organization.

Watson, et al. (2017) conducted three studies using the Levenson Self-Report on Psychopathy (LSRP) by surveying university seniors who were business majors. The studies included ethical decision-making scenarios compared to the participants' LSRP scores. The three studies were related and informed the overall results that found statistical significance that ethical decision-making includes an element of self-interest. The findings support previous research that shows moral development, moral identity, and moral reasoning inform ethical decision-making. However, this study compares the decisions with the LSRP scores to show that psychopathy does affect decision-making in business negatively.

Moral Development and CPs

Alavi (2023) studied ethical philosophies such as deontology, rule utilitarianism, and virtue ethics to develop an integrative theoretical framework of authentic leaders' internalization and activation of ethical philosophies informed by their moral perspectives. Alavi's work demonstrates the evolution of the moral development of an authentic leader. It can be used to find points in which the CP's moral development may have been compromised or underdeveloped. Alavi's model shows that trigger events that activate the authentic leader's internalized moral perspective and moral identity are influenced by their reflections and practices over time, reinforcing subsequent decisions and actions based on past experiences and outcomes. Ethical philosophies could be embedded into the authentic leader's moral identity but is more subtle in its influence of their actions and decisions as it is integrated with myriad experiences, beliefs, and observations of outcomes. Although Alavi (2023) did not study toxic leaders such as CPs, his model can inform the lack of integration of moral development and moral identity in CPs. He posits that if a leader has not experienced reflecting on their internalized integration of past experiences and outcomes involving moral or ethical dilemmas, they would not have the opportunity to develop their moral identity. His model shows that moral identities are formed by integrating different values and creating a self-understanding. He states that if a leader does not reflect on the outcomes of moral actions, then a moral identity is not formed.

Berryman, et al. (2023) studied the impact of contemplative practices on moral functioning. The authors define moral functioning as moral psychological factors such as moral identity, moral awareness, moral judgments, and moral behaviors. They define contemplative practices, not to be confused with contemplative traditions such as Buddhism and Daoism, to include, but not limited to, meditation, prayer, reflection, yoga, tai chi, and ascetic sensory deprivation. Their study found that mindfulness meditation improves moral reasoning and may reduce slippery slope effects. However, they also found that the participants who practiced mindfulness meditation still showed some negative self-focused moral behavior such as cheating on an anagram puzzle test, but avoided cheating on the test when they were held accountable to a social group.

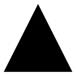
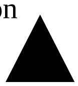
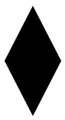
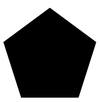
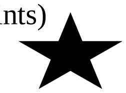
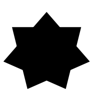
McCuish and Gushue (2022) studied changes in psychopathy tendencies in adolescents becoming young adults over five years. They found that psychopathic behavior could decrease if maturation was supported in a positive environment. Using the Youth Psychopathic Traits Inventory (YPT) instrument, participants were originally interviewed while incarcerated in a juvenile facility. Follow up interviews occurred at three years, four years, and five years after the original interviews. The authors note that family culture dynamics tend to influence adolescent psychopathic traits. Therefore, as family influence decreases as the adolescent becomes a young adult, the possibility for positive influences increases. The study found that the significant factors that can change between adolescence and young adulthood include work orientation, consideration of others, and moral disengagement. Work orientation suggests that if the adolescent psychopath finds meaningful work as they become young adults, the positive feelings of self-pride transfer to life areas outside of work including consideration of others. The study found that moral disengagement tended to decrease when the participants associated with peers who supported positive emotional relationships and learned to integrate feelings of distress about negative behavior rather than disengage with the feelings and continue with negative behavior. Their study shows that positive work situations, positive living situations and relationship dynamics, and positive peer group experiences in the years between adolescence and young adulthood can decrease psychopathic behaviors. Their study is further supported by Beckerson et al.'s (2023) findings on adolescents' brain activity in moral cognition areas of the brain indicating changes occur more rapidly at this stage of life.

Ali (2021) analyzed the personalities and behaviors and formal diagnoses of perpetrators of some of the largest financial crimes in the world since the mid-1900s. The study analyzed various personality disorders in perpetrators of financial crimes such as narcissistic personality disorder (NPD), anti-social personality disorder (ASPD), and addictive disorders as well as mental disorders such as Asperger syndrome (AS) and autism spectrum disorder (ASD). The author considered CPs a sub-species of the ASPD category. The study showed that many perpetrators of financial crimes possess a personality disorder or a mental disorder. Ali suggested that financial crimes that are perpetrated by someone with a personality or mental disorder should require a forensic psychologist to be involved in the adjudication of the crime. The author also recommends that a psychiatric evaluation be conducted on all persons convicted of financial crimes and suggests that the mental health status of the perpetrator is a motivating factor of the crime. The author offers proactive ways to mitigate the risk of potential financial crimes being committed by would-be perpetrators with mental and psychological disorders. For example, she suggests that risk-takers' managers should be required to have their mental state assessed and boards of directors should be aware of risks when appointing senior leaders.

Previous Fraud Theory Models

Fraud theory models such as the fraud triangle (Cressey, 1953), the triangle of fraud action (Dorminey, et al., 2012), the fraud diamond (Wolfe & Hermanson, 2004), the fraud pentagon (Marks, 2012, as cited in Huber & DiGabriele, 2021), the five-point fraud star (Umar, et al., 2022), and the seven-point fraud star (Monteverde, 2023) do not specifically address fraud committed by CPs. The original fraud triangle Cressey (1953) developed focused on misappropriated assets fraud such as embezzlement. This fraud triangle continues to be used widely, especially in educational and training settings to explain why fraud occurs. Subsequent fraud models have been developed based on the original Cressey triangle. Table 1 describes the fraud models currently in the literature.

TABLE 1
EXISTING FRAUD MODELS IN THE LITERATURE

Fraud Model	Names of Points	Description	Source
Fraud Triangle 	Opportunity, Pressure, Rationalization	Based on embezzlement rather than financial statement fraud	Cressey (1953)
Triangle of Fraud Action 	The Act, Concealment, Conversion	Focuses on the actions of the fraudster rather than elements that attract fraudsters	Dorminey, et al. (2012)
Fraud Diamond 	Opportunity, Pressure, Rationalization, Capability	Adds the element of capability to the original fraud triangle addressing the fraudster's knowledge of accounting systems and controls	Wolfe and Hermanson (2004)
Fraud Pentagon 	Opportunity, Pressure, Rationalization, Competence, Arrogance	Competence replaces Capability from the fraud diamond, and Arrogance addresses the fraudster's disregard for policies and procedures	Marks (2012) cited in Huber & DiGabriele (2021)
Fraud Star (five points) 	Opportunity, Pressure, Rationalization, Capability, Integrity	Adds the element of integrity addressing the fraudster's level of personal integrity	Umar, et al. (2022)
Fraud Star (seven points) 	Opportunity, Rationalization, Capacity, External Scope, Internal Scope, Social/Organizational Culture, Incentives	The seven-point fraud star recognizes that culture and the environment are factors and replaces Pressure with Incentives	Monteverde (2023)

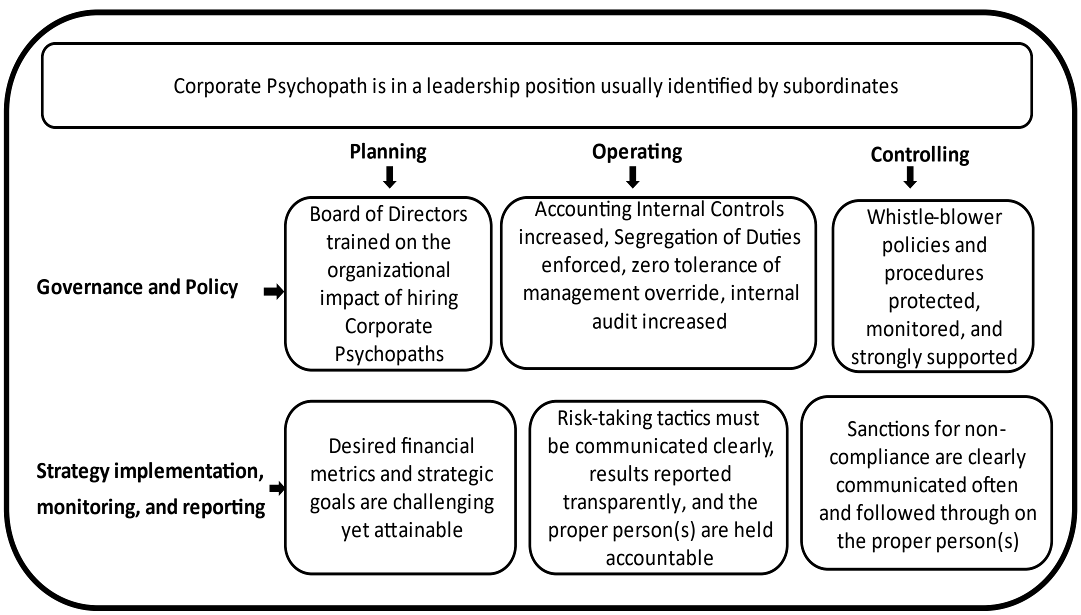
Opposition to the Fraud Models

Each of the subsequent fraud models developed after the original Cressey (1953) fraud triangle sought to improve upon Cressey's work, adding elements to address new findings in fraud research. The models with five points and more attempt to address the element of the impact of fraudsters who are CPs, but these models do not provide mitigation strategies grounded in psychopathy research. Huber and DiGabriele (2021) claim that the geometric based fraud models in the literature fail to predict fraud and that fraud models should focus on detecting fraud rather than predicting fraud. They state that since a fraudster's motivation for committing fraud is based on their mindset when they commit fraud, it is impossible to predict when and if fraud will be perpetrated. The authors further claim that since fraud models are based on Cressey's triangle and Cressey was focused on embezzlement rather than financial statement fraud, these fraud models do not address financial statement fraud specifically.

A MODEL FOR MITIGATING FINANCIAL STATEMENT FRAUD PERPETRATED BY CPs

The fraud mitigation model presented in this paper proposes that when CPs are in leadership positions in the organization, the risk of financial statement fraud being perpetrated is greater. The model focuses on mitigating financial statement fraud rather than prediction that fraud might occur if certain elements are present. Drawing from the previous fraud models in the literature that hope to predict fraud, this proposed model recognizes that the points or elements in those models can inform the mitigation strategies in the proposed model. For example, company culture informs the opportunity point through the accounting internal control policies and procedures implemented, enforced, and supported. The pressure or incentive point informs the aggressiveness of leadership’s strategic initiatives calling for short-term and unattainable financial metrics. When CPs are in senior leadership positions, the company culture can become toxic (Laurijssen, et al., 2023; Hill & Scott, 2019) at which point the company culture can become the rationalization point needed by the CP’s enablers and subordinates who do possess the need to rationalize unethical behavior. “When in Rome…” is the enabler’s justification for perpetrating fraud, while the CP does not feel the need to justify or rationalize their behavior. Ultimately the subordinate enablers’ rationalization is driven by the pressure of their fear and the company culture promotes fear and supports bullying tactics when CPs are in leadership (Boddy, et al., 2021; Laurijssen, et al., 2023). The proposed Financial Statement Fraud Mitigation Model, depicted in Figure 1, presents the elements needed in governance and policy and in strategic implementation within the context of planning, operating, and controlling activities in the organization and are supported by the literature previously reviewed.

FIGURE 1
FINANCIAL STATEMENT FRAUD MITIGATION MODEL



Although the proposed fraud mitigation model provides six elements, the use of a hexagon to depict the model was avoided in an effort to move away from the geometric shapes as noted by Huber and DiGabriele (2021). The model is two-dimensional as the rows are in the context of governance and policy, and strategy implementation, monitoring, and reporting while the columns are in the context of planning, operating, and controlling. Therefore, each element belongs to two dimensions. For example, the need to train the board of directors on the impact of CPs falls under the governance and policy responsibility and is achieved in the company's planning processes. All six elements fall under the caveat heading that these elements apply when a CP is in a leadership position.

IMPLICATIONS AND RECOMMENDATIONS FOR PRACTICE

Laurijssen, et al.'s (2023) study found that the three most important factors that must be present to mitigate CPs' impact on the corporate culture are consistently enforcing clear policies and rules, sanctioning all unethical conduct, and promoting transparency in reporting, decision-making, and behavior.The organizational policies, along with the execution and reinforcement of the policies, must create difficulty to conceal psychopathic behavior. Corporate cultures that do not sanction misconduct promote a culture that accepts unethical behavior. CPs are attracted to corporate cultures that have vague rules and policies that are not enforced. The Laurijssen et al. (2023) study found that CPs do not know how to choose ethical behavior unless it is required, and that clear rules and procedures mitigate the CP's unethical and abusive leadership decisions and behaviors. Since CPs lack moral judgment but understand the acts permitted in social and legal contexts, the clear rules and procedures provide direction for appropriate behavior. CPs have personal agendas and goals, so they need to understand how the rules fit within their personal goals. Therefore, it is imperative that the imposed rules and procedures have positive outcomes for the CP and alternatively, must have sanctions for when the rules have been disregarded. The authors, similar to Ali (2021), suggest that organizations screen leaders for psychopathy tendencies.

Laurijssen et al.'s (2023) study indicates that accounting internal controls, which are rules and procedures should be increased and systematically enforced when CPs are in leadership roles. For example, there should be strong segregation of duties policies, and more access controls and detection controls embedded in the accounting system**.** Most importantly, there should be no opportunities for management override of accounting internal controls. Jeppesen and Leder's (2016) study specifically found that CPs consistently use management override of controls as a normal part of their job.

Another implication for practice involves the emphasis on short-term risky strategic goals that include unreasonable growth metrics. CPs prefer grandiose goals and thrive on competition (Laurijssen, et al, 2023; Boddy et al., 2021; Hill and Scott 2019). Short-term profit metrics tend to emphasize unattainable goals and highly competitive environments that CPs enjoy. In addition, CPs will do whatever it takes, including unethical behavior, bullying, and deceit to win. Therefore, avoiding segregation of duties through collusion and overriding accounting controls through their management privileges are the ways in which CPs most often commit financial statement fraud. Hence, it is imperative that accounting internal controls policies and procedures are consistently enforced, and consistent sanctions are enforced when internal controls are violated. In addition, whistleblowing policies and procedures must be clear and strongly supported in the corporate culture.

FUTURE RESEARCH

As the number of CPs in leadership positions grows, future research could expand on how the proposed fraud model focusing on CPs has influenced the board of directors in hiring senior leaders. The call for boards of directors to screen for psychopathy when hiring leaders could provide data for studies regarding the efficacy of screening for psychopathy in mitigating financial statement fraud. Studies involving organizations promoting a culture of transparency, accountability, and attention to risk-taking could provide information on the influence of CPs in leadership positions trained to follow accounting internal controls procedures and other governance policies. Financial statement fraud will likely not completely disappear even if corporate cultures become more positive and CPs are trained to follow governance policy and mitigate risk-taking. Therefore, many opportunities for studies on the perpetrators' motivations and behaviors in the context of the financial statement fraud mitigation model proposed in this paper will likely exist and it will be interesting to discover if the model holds when compared to future material misstatements.

CONCLUSION

This paper proposes a financial statement fraud mitigation model that focuses on fraud in the form of material misstatement of financial statements perpetrated by corporate psychopaths in leadership positions and their enablers coerced by the CP's bullying and fear tactics. The financial statement fraud mitigation model is supported by literature on the effects of CPs in leadership and the influence of corporate culture on financial statement fraud. The financial statement fraud mitigation model proposed also supports the call for board directors to consider the possibility of their unknowingly hiring a CP when searching to fill senior leadership positions. Finally, the proposed financial statement fraud mitigation model provides support for how CPs' influences can be mitigated in organizations by imposing strong rules and policies, especially in the form of disallowing management override of internal controls and consistent sanctioning of unethical behavior along with a culture of unwavering insistence of transparency in communicating, reporting, operating, and performing.

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