The Solution for Achieving Ethical Economics: Strengthening the Ethics of Accountants

* *Ruth Wolf*

Abstract

The article refers to accountants as the foundation stone for the preservation of business and ethical stability in companies around the world. Therefore, the article recommends that accountants should be educated in these aspects during the process of their academic training. The main focus of the training should be on the strengthening of their personalities and their ability to withstand pressure. The article emphasizes the main stumbling blocks encountered by accountants in their work, and stresses the importance of writing accounting reports properly and preventing "creative accounting". An accountant's job requires restraint, patience, and the ability to withstand pressure from bosses and clients alike. In line with the necessary training in honesty and integrity of accountants in all cultures and countries, the academia is responsible for training accountants not only to gain knowledge about accounting laws and regulations, but also to help mold their personalities and more.

Keywords : **ethics, accountants, management, resilience, transparency**

JEL Classification: G01, G18, G28, G32, G34, M11, M38, M41, M42, M48

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Economic transgressions in companies and organizations are often made by those in charge of the funds – namely, the accountants. Indeed, this article is meant to present a picture of the need to fight economic business corruption in every sector and in every country, and it deals mainly with finance-related transgressions. Serious corruption in the business arena, for example, exists in the West as well as in the East. A substantial number of the business scandals that were publicized in the last decade in the United States generally involved accountants as well as those who actively implemented illegal accounting practices, in most cases under pressure from managers or clients. As a result of these financial scandals, harsh criticism has been raised in the past, particularly against schools of business administration in the United States (Bennis and James, 2005; Crane, 2004; Swanson, 2005; Wolf, 2006, 2008).

Former President Bush called upon departments of business administration in the United States to serve as "mentors" in establishing permitted and prohibited behavior, and not be dragged into moral ambiguity (Sims & Felton, 2006 : 337). In addition, the government is working to establish new legislation to limit financial transgressions and to ensure that financial people take responsibility for professional standards.

Creative Accounting

Accounting manipulations, or "creative accounting" as it is commonly called, occurs when company managers distort or change information in the financial reports in order to present the company in a positive light. Much has already been written about the fraudulent activities at Enron, Tyco, Merck, Worldcom, and others, and the damage these activities caused to the American economy (Wolf, 2006a ,2006b ,2008).

Indeed, at the same time that the American economy was suffering from the damage of the accounting transgressions and slowing down significantly, other markets around the world were becoming more financially stable and economically prosperous (Whiteney, 2007). In other words, the enormous damage to the American economy is also a result of fraudulent activity, among other reasons, such as false financial reporting. Today, when investors try to find markets beyond their borders in foreign companies, it is very important that they rely on studies that can give them an idea of which countries are worth investing in and which countries they should avoid (Skousen & Twedt, 2009).

* *Lecturer,* Interdisciplinary Department of Social Sciences and Economics Department, Bar-Ilan University, Ramat Gan, Israel. E-mail: wolfru@walla.co

Accountants are responsible for a firm's financial reports. This job places them in a key position in the company. As I have already noted, the accountants bear a large responsibility to conduct themselves in an ethical manner (Wolf, 2006a ,2006b, 2008). There is a risk of them being enticed by fraudulent and manipulative activities, or they can prevent such behavior by supervising ethical activities (Skousen and Twedt, 2009). An examination of the likelihood of manipulation and fraud in company financial reports using the Fraud Score Model (F score) - in Argentina, Brazil, Chile, China, Hong Kong, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Singapore, South America, Taiwan, Thailand, Turkey, and the United States - sought to compare the emerging market companies with the United States (Drchow, 2007 cited in Skousen and Twedt, 2009). This comprehensive study painted an interesting picture of the profitability of investments in various countries throughout the world.

There is no doubt that manipulation of financial reports can cause economic damage and destroy the trust of investors. Therefore, there must be a means of defending against such activities. Every manager and accountant should take this study into account because it aids in the process of identifying fraud, and serves as a source of important information about the global market. This study is also useful for investors who want to evaluate potential risks of foreign investments. Using data spanning a period of ten years between 1998 and 2007, Skousen and Twedt calculated the F scores for each country and for each type of industry in the reporting countries (Skousen and Twedt, 2009). A comparison of the results with those of the United States reveals some interesting differences. The industries were divided into nine main industries, including services, construction, mining, manufacturing, utilities, transportation and communications, banking and finance, wholesale and retail trade, and others. The most fraudulent reports were found in the industry of agriculture and in the industry of transportation and communications. Because the communications industry is characterized by secondary branches, there is a greater probability of fraud. Ironically, the industry with the least likelihood of reporting fraud is banking and finance.

Regarding national differences, almost all the countries participating in the study produced better results in the banking and finance industry than did the United States. Only China, Hong Kong, and Israel displayed more fraud than the United States in the banking and finance industry. In terms of the construction industry, the United States was average, whereas Malaysia, Indonesia, and Turkey had the most accounting manipulations (indeed, the outcome of the destruction wrought by the recent earthquake in Turkey raises questions regarding the quality of Turkish construction).

It should be noted that the maximum cases of accounting manipulations were found in the transportation and communications (including high-tech) industries, even in Turkey and Russia. The United States is also placed high in accounting manipulations in these industries, whereas Israel and Poland had the lowest probability of false reporting in these industries. In effect, the results of this important study assist investors in determining worthwhile foreign investments, both in terms of the country and the firm. The countries that were shown to have problematic accounting reports across almost all industries were Indonesia, Malaysia, and Turkey. It is worth noting that Poland, Peru, and Mexico demonstrated the lowest probability of accounting manipulations. In other words, it is advisable to proceed with caution when it comes to investing in certain countries. It seems to me that these results also serve as a criterion for the countries themselves to change their economic situations in order to further their economic prosperity and entry into the global economic market. I emphasize that accountants play a crucial role in the global economic market.

The Responsibility of the Manager and the Accountant

Accountants are key players in a company and, indeed, the Sarbanes-Oxley Act emphasizes the importance of accountants in terms of proper company conducts (Public Law 107-204, July 30, 2002, 116 Stat. 745). The truthfulness of accounting reports is especially important for reliable and stable economic management. Therefore, managers should express their opinions regarding the selection of reliable and honest accountants. According to the Sarbanes-Oxley Act (Section 401. Disclosures in Periodic Reports), accountants in every public firm should present a financial report to managers and directors. However, the accountant is appointed for a limited period of time without the possibility of being fired in the middle of his tenure, in order to avoid pressure from the management and to prevent accounting manipulations in the financial report (Wolf & Kantor, 2005; Wolf, 2008). It should be noted that the accountant serves the directors of the company. Directors and managers today bear a large responsibility for the management of their firms. I have already noted that it is up to the managers to consult with the directors and listen to their opinions regarding matters of company management. Nevertheless, in order for the directors to be able to "sleep well at night" and not face litigation with others in the company (such as financial people), the directors are advised to become involved in the process of approving shareholder transactions and senior salaries, among other things. It is worth confirming whether or not different business transactions are good for the company, and if the company has any specific reward policies. In addition, it is worth examining whether a company's different relationships with key players are justified.

Directors should completely understand the company's financial reports in depth and make sure that the company accountant(s) will not capitulate to pressure from the management as W. Clement Stone once said, "Have the courage to say no. Have the courage to face the truth. Do the right thing because it is right. These are the magic keys to living your life with integrity." Directors can receive legal and business advice from management in order to suggest and establish regulations. They can also be aided by professionals who help them decipher information about the firm (Wolf, 2008, 2010a ,2010b).

Ethical Legislation for Accountants

In order to prevent transgressions and to restore public trust in accountants, the Sarbanes-Oxley Act was passed in 2002 in the United States at the initiative of former President Bush. This law mandates an established period of employment for accountants, and does not permit their replacement in the middle of the tenure. A strict and unchangeable salary cap is also set in advance. Of course, the law also recommends replacing accountants every few years. These stipulations are meant to protect accountants from external pressures, either from their employers or clients, who may attempt to coerce them to submit false accounting reports (Wolf and Kantor, 2005 ;Wolf,2006a ,2006b) .

Nevertheless, it seems that regulations and legislation on ethics, such as the Sarbanes-Oxley Act, cannot always influence the personal ethics of an employee or manager, because one's personal ethics is a complex constituent of the nature of man. Therefore, it seems to me that laws cannot always guarantee the resolve of financial people, such as accountants, to avoid future transgressions. The solution lies in thwarting those who try to persuade others to continue such transgressions, and in equipping managers, accountants, and financial people with additional tools, beyond laws and regulations, to enrich their personal strength (Wolf, 2006a ,2006b, 2008) . Because accountants are expected to maintain integrity in their work, accounting schools in various universities and colleges throughout the world currently require a course in ethical accounting as a mandatory field of study for the professional training of accountants and other students (Kidwell, 2001; McCabe & Trevino, 1993).

Supreme Principles of Accounting

It should be noted that the American Institute of Certified Public Accountants (AICPA) adopted a set of ethical codes in New York in 1992 (revised in 1998, in order to increase public trust in accountants). These codes detail sanctions and penalties, including the loss of one's license, for those who break the rules. The following is a list of ethical suggestions that should be reinforced, based on the accountancy regulations designed for the administrative and financial systems in large companies and organizations:

❖ **Independence :** The role of the accountant in a company should be secured by an organized up-front agreement, in order to safeguard his independence. It is preferable that the accountant's salary be determined by the company's audit committee and not by his employer or the client.

❖ **Equity** : The organization's financial report should take into account all the stakeholders, including the shareholders, clients, suppliers, investors, and the general public. Therefore, the financial report should be true and fair, and free of "creative accounting."

❖ **Preventing Conflicts of Interest :** Key people in the company should be prevented from taking advantage of their positions to advance their personal goals. One must keep information strictly confidential and use it only for company purposes.

❖ **Transparency :** The financial report must be clear, complete, and precise, providing a true picture of the state of the company and should be written in user-friendly language that can be understood by all.

❖ **Adhering to Accounting Rules and Regulations :** The accountant is required to act according to accepted accounting rules and regulations, and must not deviate from them even when under pressure from his employer.

❖ **Comprehensive Ethical Training :** Frequent workshops and continuing education programs should be established for both accounting employees and managers in the profession in order to enable mutual learning. In addition, accountants should be required to pass established continuing education programs on ethics and standardized accounting.

❖ **Cooling Period :** A cooling period should be established for an accounting auditor when moving on to other clients (in some countries, for instance, two cooling periods of five years each were established).

❖ **Ongoing Internal Audits :** Branch managers should be encouraged to participate in internal audits of the company and to explain the importance of such audits in order to prevent fraud or transgressions in the company.

❖ **Audit Committee :** In every public company, the audit committee should appoint the accountants.

❖ **Professional Instruction :** Ethical professional training in departments that train financial people and managers should be expanded to include courses in international regulations. Financial people and managers should also be required to attend occasional organized courses in institutions of higher learning on accounting and auditing issues so that they frequently update their knowledge.

Protecting Investors

Accountants also serve as auditors for organizations and companies. The Institute of Internal Auditors is one of the most important institutions for supervising and examining the work of accountants. The job of auditors is to essentially understand accounting and track financial reports, and there are auditors who even function as accountants as well. Auditing is required in every company and institution, and auditors often encounter many difficulties in the course of their job. Indeed, many steps have been taken in the United States to protect investors. One of the committees entrusted with this task in the United States is the Securities and Exchange Commission (SEC), whose purpose is to protect investors, maintain fair and orderly market behavior, and assist capital structures. Because the investment world is unlike the banking world, in which deposits are sometimes guaranteed by the government, there is a need to protect securities, stocks, bonds, and so forth that may lose their value in the absence of collateral. The SEC demands transparency, among other things; public companies with over 499 investors are also required to publish their financial reports. According to the SEC's official Website in United States (U.S. SEC, 2010) :

> The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it. To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions.

Therefore, the SEC requires public companies to publicize their financial information and other relevant information. This information flow is meant to provide investors with a picture of the quality of their investments. The SEC effectively oversees the trading markets, brokers, dealers, investment advisors, and trust funds. Its main concern is that investors have information available that is needed for fair trade.

It should be noted that the SEC imposed a fine of $500 million on Worldcom as a result of its false reports on the stock exchange. This high penalty was intended to reflect the severity of the transgression and to allow the SEC to continue to rule by an iron fist immediately following the huge scandals in 2002. There is no doubt that accountants have a crucial function in terms of ethics in the organizations and firms where they are working. History has shown that accountants can either contribute to a company's demise or save a company from collapse by displaying transparent and ethical behavior.

In a study of those elements that influence ethics in the Chinese business world, it was found that ethical scandals that were exposed in the West at the start of the twenty-first century were also occurring in the East as well (Sardy, Munoz, Sun, & Alon, 2010). In countries like China, claims are sometimes brought against clerks in government companies for poor planning, lack of reference to shareholders, and even maneuvering in financial markets (Wolf ,2010a, 2010b). The influence of the Chinese government and politics is strong (Sardy et al., 2010). Sometimes, the difficulty involved in ethical behavior has to do with, among other things, a moral approach that promotes the value of conformity and adherence to standard procedures.

Chinese tradition also has a strong influence on its economy. The accounting system in Chinese organizations includes the concept of "small treasuries" (xiaojinku), i.e., funds and accounts external to the regular accounting books whose purpose is to finance personal expenditures that are not exactly legal work expenditures (Wolf, 2006b, 2010a ,2010b).

How to Train Accountants in Academia

Significant differences have been found in a comparison of the ethical behavior of students at universities and colleges that had a code of ethics and the behavior of students at universities that did not have a code of ethics (McCabe and Trevino, 1993). According to a research by McCabe and Trevino, more students tended to cheat and to justify their cheating in universities without a code of ethics than in those with a code of ethics. The requirement that the students must sign the code of ethics compels the students to adhere to it (Kidweel, 2001; Wolf, 2004a). The code of ethics clarifies expectations and presents the rules of suitable behavior. These findings serve as the basis for the decision to increase ethical instruction of those training to become key players in the economy, such as university students studying accounting, business administration, economics, and so forth, in order to prevent future financial scandals and anti-social economic behavior.

There is no doubt that, in light of widespread publicity in the media regarding business fundamentals, such teaching is important (DePree & Jude, 2010). However, ethical behavior should apply to both the lecturers and students (DePree & Jude, 2010 : 19). In other words, institutions that train future managers and accountants must establish their own ethical culture.

Ethical knowledge should be internalized through academic educational opportunities. The academic staff should present a clear image of what is ethical behavior when they are teaching ethics. For example, an ethical issue arose when students were required to join a specific journal (DePree & Jude, 2010). This case illustrated the need for teachers of ethics to behave in an exemplary manner so as to serve as role models for the students.

Internalization of Ethics Among Accountants

In Europe, companies that are traded on the stock exchanges are now required to act according to the international financial reporting standards (IFRS). These regulations are meant to institute uniform financial reports and to facilitate the transmission of standard information among worldwide companies. This uniform accounting system, which will promote ethics among accountants and financial people, should be taught in universities and colleges. It seems to me that a substantial part of accountants' training should focus on the theory that personal reinforcement to strengthen individual resolve so that they are able to fulfill their roles as required by law (Wolf, 2006c, 2008). Indeed in my book "Ethics is Good for Business," I devoted a special chapter for this issue. Laws, regulations, and rules are insufficient to prevent employees and accountants from becoming involved in transgressions (Wolf, 2006c, 2008). It is the emotional strength, achieved through expanding the accountants' awareness of his behavior and recognition of their advantages and shortcomings, which is specifically able to support the accountants' resolve in the face of pressures and to prevent transgressions in their work.

Nonetheless, there is no doubt that additional studies are needed in order to understand the behavior of managers and accountants when they are under pressure. The patterns of accountants' ethical judgment can also be influenced by culture. In a study of a number of different cultures, including Australia, China, and Hong Kong, Tsui and Windson (2001) showed that despite globalization and the development of global business relationships, the accountants' cultural backgrounds still greatly influences the quality of their ethical decisions. Due to the differences in ethical outlooks among different cultures, it is important to be familiar with the culture with which one is negotiating. I already mentioned that the accounting system in Chinese organizations includes the concept of "small treasuries" (xiaojinku), i.e., funds and accounts external to the regular accounting books whose purpose is to finance personal expenditures that are not exactly legal work expenditures (Wolf, 2010a). These "small treasuries" are a household word in China and have become a recognized norm. It is difficult for managers to do their work without them as they are an established part of the economic culture (Wedeman, 2000). Chinese managers are reconciled to giving these funds as part of an ancient Eastern economic tradition. Accountants are sometimes required to take into account these special expenses, which are related to the country's culture. They are part of the finances that the accountants are required to disclose, albeit with much difficulty, in their accounting reports.

Conclusion

The present paper discussed the great importance of teaching and training accountants during their training period in order to promote honest behavior among them in practice. There is no doubt that the population of accountants faces especially difficult pressures, as compared to other sectors and professions, from their clients, bosses, and state authorities who dictate the regulations. In addition, it is known that the conduct regarding finances is always wrought with temptations, and that accountants need to be "the guardians of democracy," as the President of the United States referred them to.

Therefore, by offering frequent training and education programs to this sector, it is possible to moderate the pressures faced by them. This paper recommended teaching ethics in a way that promotes internalization and comprehension of the importance of their profession. It is my hope that the authorities responsible for training this sector will indeed understand that a business or enterprise cannot succeed without the contribution of accountants, thereby creating the urgent need for their cognitive, emotional, and personal enrichment.

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