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Accounting Ethics and Social Responsibility in a Knowledge-Based Economy

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Abstract

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The numerous cases of fraud, incorrect representation of interests, rigged accounts, etc. brought to light by the financial crisis have featured the professional accountant as one of the artisans of fraudulent financial reporting. In these circumstances, the ethical duty of a professional accountant goes beyond the financial limits. It overlaps with the area of corporate social responsibility in trying to ensure that businesses and the individuals they are advising are aware of their own ethical responsibilities. The paper is an empirical approach to the idea of accounting as a social stake in front of its users, in the context of defining accounting information through social characteristics. The social role of accounting emerges from the substantiation of decisions taken by users regarding the distribution of added value between different social groups. Thus, the financial status of the company is both the result of a modelling and a social validation process.

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1. Introduction

Little approached in the history chapter, accounting is as old as religion or astronomy, dating back over six millennia. During all this time, accounting has represented facts and people. Confidence in accounting professionalism requires public liability, public interest being defined as the collective welfare of the community and institutions where professional accountants are employed. The behaviour and work of professional accountants has a consistent impact on economic growth. Financial decisions are taken daily by individuals who directly or indirectly rely on the accuracy and relevance of accounting information. If that information proves to be inaccurate with the economic events on which they were generated or are misunderstood, the result of these decisions will be far from expected.

Over the years, there have been numerous global accounting scandals, which caused losses of billions of dollars to investors and shareholders. Accounting companies have used unethical practices by falsifying information or presenting it incorrectly. The UK commercial crises (1929 - 1933), the Mexican crisis (1994), the Asian crisis (1997), the Russian crisis (1998), the crisis of US companies (2001-2002) and the global economic crisis (2008) have sculpted international accounting regulations. Thus, there has been a change from the accounting system based on historical costs (trigger of the 1929 crisis) to the fair value accounting system, (trigger or an accelerator of the 2008 crisis). Currently, the International Financial Reporting Standards dominates the ways of thinking and practicing accounting and economic education. The application of professional judgment has become the cornerstone of the entire accounting system.

The main theme of the paper presents the importance for all economies that face a depreciation of the economic and social environment. After the 2008 crisis, the rich have become richer and the poor have become poorer, generating extreme inequality. The crisis is seen as a transfer of wealth from poor to rich. Young people and young families with children have lost a lot. The generation of people over 60 years old have registered losses of less significance. It is the losing young people who will shape our future, everybody's future.

In this context, present challenges mankind is facing are: blinding greed for money and exhausting rush. Besides greed to own property or superior hierarchical position, or to have them both, an essential role is played by fear: fear of lagging behind in the rat race, fear of poverty, fear of taking the wrong decisions.

2. About ethical economics

The managers' possibility to play with results in order to achieve a certain goal, which often contradicts the true image and reflects the prerogative of creative accounting. In assessing the concept of result intervenes a smaller or larger degree of subjectivity based on the accounting policies and options adopted by the enterprise. The latter have an obvious influence on the way information is disclosed by the company.

In this context, ethical accounting means moral judgments based on the values and decisions accountants are facing every day in practice. Not using these ethical standards creates the possibility of manipulation of facts and information. All these have led to lower credibility of the accounting

profession among the public. The increasing complexity of the accounting domain, the information overload that cannot be managed effectively and timely, frequent changes in legislation, all these represent ethical problems for accounting.

How ethical is the professional accountant, who is influenced in applying his judgement by pressure groups? What relevance does the observance of a code of professional ethics has, given that a good professional is one who, when asked how much $1 + 1$ makes, responds with a subtle smile: how much do you want it to make?

Phillip G. Cottel said that in order to sustain strong ethics, a professional accountant must have a strong sense of values, the ability to reflect on a situation to determine the ethical implications, and a commitment to the welfare of others (Cottel & Pelin 1990).

Iris Stuart recommends an ethical model consisting of four stages: the accountant must recognize that an ethical dilemma occurs; identify people who would be interested in the outcome of this dilemma; determine alternatives and evaluate its effects on each alternative with regard to the interested people and then select the best alternative (Stuart, 2004, p. 6).

Another theory on ethics is Kohlberg's moral development model (Goslin, 1969). It describes the moral development as a series of six progressive stages which describe the logic used in decision-making in situations involving an ethical component. In Kohlberg's model, the individual moral development is at a distinct level at any given point.

3. Empirical study

In terms of empirical studies, two research directions have been taken into account: one of them referred to the study of the accounting professionals' perception on professional ethics in terms of applying the techniques of creative accounting and their level of understanding of the principles of social responsibilities when making financial and accounting reports. This approach has led to the referral of weak tendencies towards manipulation and a good knowledge of what social responsibility entails. The second direction taken into account was to identify the students' perception of ethics and creative accounting, which revealed an inclination to modifying accounting information and therefore a willingness to distort the real picture of financial reports.

Work methodologies include the design, implementation and interpretation of questionnaires that combine open and closed questions, designed based on projective research techniques. The study was a descriptive cross-sectional one, which was carried out during January-March 2016. The questionnaire included 25 questions out of which 10 questions were general in nature and were aimed at a general identification of interviewees.

135 participants took part in the study. A first category is formed of 72 accounting professionals with diverse experience and many years of work. The second category is made up of third year students who study Accounting and Economic Informatics students and masters students in the Accounting and Audit department. Out of the questioned people, 95 are women and 40 are men, 90 live in the urban area and 45 in the rural area. The religion of most people is Orthodox, with 5 Protestants and 2 Catholics.

The second part of the questionnaire entailed a series of 15 questions which analysed: the professionals' perception of ethical behaviour in both ordinary and crisis conditions; professional judgement manifestation within Romanian accounting and social responsibility manifestation in producing financial reports.

The study's limit is reached because undergraduate and masters students have had reduced contact with accounting practice, but study creative accounting techniques during their degree. Older people have extensive accounting experience and an initial education acquired during the communist period which represented a time of transition from the centralized economy to the market one, thus having different sets of values.

The results of the study have led to somewhat expected conclusions. The accounting experts, with a lengthy experience and sturdy moral education have resisted demands of changing financial results, perceive the social responsibility of their profession and actions, but have difficulty in applying the professional judgement. Undergraduate and masters students can easily apply professional and theoretical rationales, accept to abide by professional ethics rules. Restrictive conditions being applied, which personally affects them (e.g. job loss risks, salary advantages, consistent earnings, superior positions in hierarchy) the ethical behaviour diminishes. The vast majority chooses the methods which confers them the most personal advantages and is less interested in social responsibility and ethical/unethical behaviour. Likewise, the respondents living in the rural area tend to use creative accounting much less than those living in the urban area. The gender of the respondents did not influence the results of the study. In what concerns religion, the faith in the power of money is just as strong for everybody.

4. The causes of the accountant's unethical behaviour

In Romania both the general public and mass media talk about corruption, nepotism and bribe as if it were ordinary social phenomena. The image of huge earnings, rapidly obtained and without much sustained effort is flooding the public. The youth are rather subscribing to these models of success than to sustained effort in building a carrier. In this picture, there is little discussion about the ethical problems of companies.

In this context, the causes of unethical behavior are:

- The anticipation of sizable earnings, especially under the conditions of inappropriate motivation
- Role conflict. Some of the interests of businesses may be in contradiction with accounting professional standards. Thus, under the pressure of the entity's management, the accountant faces the following dilemma:
 - to act from an accounting point of view by applying an alternative, legal treatment that would lead to the distortion of the true image of the company
 - to be ethical, respecting the accounting principles in an attempt to provide a true picture of the company, but the price paid for this quality could even be job loss
- The competitive spirit. In a market full of bankruptcies and accountants, a tight competition for jobs is born, which stimulates unethical behavior. Not a few times have cases of disloyal

competition have been met, in which the charges for the offered accounting services have been markedly lowered, in the detriment of quality.

- Personality. Individuals strongly oriented towards accounting values are more exposed to an unethical behavior than others. Moreover, in approaching moral values by individuals, there are different points of view.
- The organization's culture. In those cultures characterized by slogans such as "Success at any cost!" or "Thief not caught, honest seller", the managers, who are in the superior hierarchies, seem to be unknowing of the "ethical lapses" of their subordinates.

5. Is the financial-accounting creativity a manifestation of the unethical behavior?

Broad knowledge of enterprise activity, the skills of telling the essential apart from the appearances allow the formulation of solutions. All of this means creativity.

In literature there are various approaches on creative accounting. Thus the concept of creative accounting is usually used to describe the process by which professional accountants use their knowledge to manipulate figures in the annual accounts (Malciu, 1999, p. 123). In another approach, creative accounting can be understood as the process by which management uses certain deficiencies or ambiguities in the wording of accounting rules with the purpose of presenting a certain image of financial performance (Shah, 1988).

On the other hand, creative accounting can be defined as a set of processes that focus on either changing the result, in order to maximize or minimize it, or presentation of financial statements, without them being mutually exclusive. Accounting options have always been available to the accountant and they do not involve creativity in the negative sense of the word (Stolowy, 2000, p. 157).

One of the most complete definitions regarding the concept of creative accounting is, by another author: the process by which, due to the existence of loopholes in the rules, accounting information is handled and taking advantage of flexibility, are chosen methods of measurement and information which allow the transformation of the summaries from what they should be to what managers want them to be, and is respectively the process by which transactions are being structured in such a way as to allow obtaining the desired accounting result (Naser, 1993).

It is preferable to approximate rather than to be precisely wrong, says J.M. Keynes. In general, the continental accounting system believes that creative accounting is a barrier in achieving the true image, as it is a misleading and undesirable practice, while the Anglo-Saxon accounting system demonstrates greater flexibility and believes that creative accounting is required in order to keep up with economic, social or legal evolution.

Unethical behavior involves an intentional act committed by one or more individuals within the leadership, individuals that are in charge, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. Therefore, we cannot say that creative accounting and fraud are absolutely synonymous. Both are intentional actions, but in general, creative accounting complies with the law but not its spirit. Creative accounting is legal, may even be a factor in achieving the accurate image when applied in good faith. However, it can be proved that it is closer to fraud if certain

categories of users of the accounting Information use loopholes in regulations to obtain benefits to the detriment of others (Groșanu et. al., 2011).

6. Conclusions

The accounting profession has always faced big challenges caused by global crisis consequences, the complex implications of the digital age, the need to replenish the competitive environment following the serious strains it has been subjected to lately. These generate the movement of the center of weight away from historical information, from factual knowledge to one that sets the creative energies into motion. It is an accumulation of skills and attitudes, intuition and imagination that cannot be separated from ethical norms.

After Aristotle's approach, ethics is concerned with the responsible behavior of the individual based on their perception of honesty or justice. However, we are living times when our souls can barely breathe because of materialism and consumerism, when businesses in which goods and marketing policies are apotheosized. In these conditions, people become goods and instruments of the marketing policies, human resources, labor force, quantities and qualities with regards to economics.

To most people nowadays, the value of the individual is a competitive, commercial and financial one. For an individual, their counterpart is not more valuable through their qualities or talents. Today, the individual is valuable through their position, their expensive goods that are often confused with their identity. You are valuable because you have millions of euros in your account, not because of the life you are living. The invaluable individual in the whole scheme of humanity does have a price today, they can be sold and bought (Stoica, 2013). To be speaking with a merchant about ethics, that is madness.

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