

# Unethical behaviour by financial reporters in an organization

Business



The word “ ethics” is often in the news these days. Ethics is a philosophical term derived from the Greek word “ ethos” meaning character or custom. This definition is germane to effective leadership in organizations in that it connotes an organization code conveying moral integrity and consistent values in service to the public. Formally defined, ethical behaviour is that which is morally accepted as “ good” and “ right” as opposed to “ bad” or “ wrong” in a particular setting.

For an individual to exhibit ethical behaviour, the mechanism must have adequate provisions to ensure that there is no victimization of employees who follow this procedure. It also suggested that companies should take measures to ensure that this right of access is communicated to all employees through means of internal circulars. The employment and other personnel policies of the company shall contain provisions protecting it from unfair termination and other unfair prejudicial employment practice. There is absolutely no room for unethical behaviour in the professional world. This statement is exceptionally important for publicly traded companies and their accounting practices.

From financial officers to accountants to auditors, and so on, there is no greater impact on stakeholders when these persons perform unethically. Reasons for Behaving Unethically There are multiple reasons for which one might consider acting unethically when preparing financial information. The most obvious reason may be quite simply, for self-interest—greed. An accountant may embezzle funds from his or her employer for financial gain. Or perhaps the Chief Financial Officer of a publicly traded corporation may prepare financial statements to appear as though the company is performing  
<https://assignbuster.com/unethical-behaviour-by-financial-reporters-in-an-organization/>

much better than it actually is, because he or she wants their stock portfolio to increase. Another example for why unethical behaviour might exist is from corporate pressure.

An accountant may feel pressured from his or her client to report false information. Or maybe a Chief financial officer is experiencing demand for improvements from the board of directors, the company's president, owners, or stockholders; or he or she may be in fear of losing their job. An accountant may decide to work for a company even though a conflict of interest may exist. If the accountant is owed money or has a significant stake in a firm, he or she may not be the ideal individual to prepare certain companies' financial statements. Finally, and perhaps the most common form of unethical behaviour, is the failure for an accountant to conduct an in-depth analysis when preparing and revising financial information. There are many individuals who prefer to take short-cuts in life; and frankly, this simply is not acceptable when expected to perform in a professional manor.

Issues on Ethical Behaviour The issue of business ethics is engaging companies more and more – both domestically and internationally. This trend is accentuated by high-profile examples of breaches of accepted standards of ethical behaviour. For example, the recent Enron case where inadequate checks and balances within the firm enabled unethical behaviour to occur, a development made easier by the failure of the external auditor to fulfill its role properly. Assumptions about ethics and business are influenced inevitably by fundamental beliefs about the role of business in society. On

the one hand, there are those who believe that the sole social responsibility of business is to generate profit.

For some proponents of this view, profit generation itself takes on a moral dimension whereas others see profits as the key to wealth generation – the main way of addressing social issues (Davies, 1997, p. 88). On the other hand, others believe that the role of business is much broader than that of profit generation and that all those who are affected by the way a company operates – shareholders, employees, customers, suppliers, the local community, future generations (especially in relation to environmental issues) – have a legitimate interest and stake in the way a company conducts itself. The First Issue Related to Ethics is Human Rights. Corporate codes of conduct governing general corporate behaviour and treatment of the workforce in particular are not new. Their modern manifestation began in the mid-twentieth century in the form of codes from the International Chamber of Commerce and other collective codes (Donaldson, 1989, p. 55). Their popularity surged once more in the 1990s in response to pressure from NGOs, the emergence of corporate social responsibility as a key consideration for firms and the phenomenon of socially responsible investment and shareholder action. Whatever form they take, codes are necessary for the positive public image of international company and they demonstrate that the company reconciles doing business and acting ethically. Codes need to comply with a number of conditions before they can be said to operate equitably and with credibility (DeGeorge, 1993, p. 88): 1.

the contents of the code must be clearly worded and, at a minimum, comply with core standards; 2. The company adopting the code must be committed to it and be prepared to provide the resources to ensure its implementation, including training, information systems for monitoring and compliance and staff to implement new procedures; 3. Knowledge of the code throughout the organization is essential to its implementation: in particular, employees of the firm and its subcontractors and suppliers must know of the contents of the code and a reporting system must be established that enables workers to report infringements without fear of reprisals; 4. The code should be subject to verification by independent assessors who have access to the site unannounced at any time. Some of the other important ethical issues that the company should consider is bribery and corruption.

Bribery/corruption is not as clear-cut an issue as might first appear; indeed it can be rather a grey area. In some cultures, it is regarded as perfectly normal to give an official or host a gift (Asgary and Mitschow, 2002, p. 245). In others, only minimal value token gifts or no gifts at all are allowed. A problem arises when it is the norm for a contract to be signed only after the payment of a 'commission' to a key official or officials (Asgary and Mitschow, 2002, p.

240). Such circumstances place international companies in a difficult position: without payment of these commissions, the contract will not materialize and, if they do not make the payment, many other companies will (although that is not an ethical justification for going ahead with the commission). The position of the US is unequivocal about this: it regards all

such payments as bribes and, as such, they are both unethical and illegal. The Foreign Corrupt Practices Law forbids US companies from making improper payments to foreign governments, politicians or political parties to obtain or retain business. Therefore, the only choice that American companies have regarding bribery is not to make any payments regarded as bribes; otherwise, it can be considered that a company violates the law. The Challenge of Ethical Behaviour in Organizations | | | | The imperatives of day-to-day organizational performance are so compelling that there is little time or inclination to divert attention to the moral content of organizational decision-making.

Morality appears to be so esoteric and qualitative in nature that it lacks substantive relation to objective and quantitative performance. An effective organizational culture should encourage ethical behaviour and discourage unethical behaviour. Kluwer (1992). Ethics and the Challenge of Ethical Behaviour Certain organizations will commit themselves to a philosophy in a formal pronouncement of a Code of Ethics or Standards of Conduct. Having done so, the recorded idealism is distributed or shelved, and all too often that is that.

Other organizations, however, will be concerned with aspects of ethics of greater specificity, usefulness, and consistency. Is it ethical, for example, to pay a bribe to obtain a business contract in a foreign country? Is it ethical to allow your company to withhold information that might discourage a job candidate from joining your organization? Is it ethical to ask someone to take a job you know will not be good for their career progress? Is it ethical to do

personal business on company time? In addition, we hear about illegal and unethical behaviour on every aspect of our life, which includes among others; business, education, politics and social, in which disreputable executives gamble on risky business ventures with employees' retirement funds, companies that expose their workers to hazardous working conditions, and blatant favouritism in hiring and promotion practices. Although such practices occur throughout the world, most especially Nigeria. Their presence nonetheless serves to remind us of the challenge facing organizations. Unethical Behaviour: Why Does it Occur in Organizations? The potential for individuals and organizations to behave unethically is limitless. Unfortunately, this potential is too frequently realized.

Consider, for example, how greed overtook concerns about human welfare when the Manville Corporation suppressed evidence that asbestos inhalation was killing its employees, or when Ford failed to correct a known defect that made its Pinto vulnerable to gas tank explosions following low speed rear-end collisions (Bucholz, 1989). Companies that dump dangerous medical waste materials into our rivers and oceans also appear to favour their own interests over public safety and welfare. Although these examples are better known than many others, they do not appear to be unusual. In fact, the story they tell may be far more typical than we would like, as one expert estimates that about two-thirds of the 500 largest American corporations have been involved in one form of illegal behaviour or another (Gellerman, 1986).

Unfortunately, unethical organizational practices are embarrassingly commonplace. It is easy to define such practices as dumping polluted

chemical wastes into rivers, insider trading on Stock exchange, overcharging the government for Medicaid services, and institutions inappropriately using taxpayer money to buy a yacht or to enlarge their President's bed in his home as morally wrong. Yet these and many other unethical practices go on almost routinely in many organizations. Why is this so? In other words, what accounts for the unethical actions of people in organizations, more specifically, why do people commit those unethical actions in which individuals knew or should have known that the organization was committing an unethical act? An example recently provided by Baucus and Near (1991) helps to illustrate this distinction. One answer to the question of why individuals knowingly commit unethical actions is based on the idea that organizations often reward behaviours that violate ethical standards. Consider, for example, how many business executives are expected to deal in bribes and payoffs, despite the negative publicity and ambiguity of some laws, and how good corporate citizens who blow the whistle on organizational wrongdoing may fear being punished for their actions.

It is not too difficult to recognize how individuals can knowingly engage in unethical practices with such mentalities. The overemphasis on short-term monetary gain and getting votes in the next election may lead to decisions and rationalizations that not only hurt individuals in the long run, but threaten the very existence of organizations themselves. Some common rationalizations used to justify unethical behaviour are easily derived from Gellerman (1986): \* Pretending the behaviour is not really unethical or illegal. \* Excusing the behaviour by saying it's really in the organizations or your best interest. \* Assuming the behaviour is okay because no one else

<https://assignbuster.com/unethical-behaviour-by-financial-reporters-in-an-organization/>



would ever be expected to find out about it. \* Expecting your superiors to support and protect you if anything should go wrong.

Within the literature on corporate illegality, the predominant view is that pressure and need force organizational members to behave unethically and develop corresponding rationalizations; however, according to research this explanation only accounts for illegal acts in some cases (Baucus and Near, 1991). In their data, poor performance and low organizational slack (the excess that remains once a firm has paid its various internal and external constituencies to maintain cooperation) were not associated with illegal behaviour, and wrongdoing frequently occurred in munificent environments. As noted above, organizations operating in certain industries tend to behave unethically. Certain industry cultures may predispose organizations to develop cultures that encourage their members to select unethical acts. If an organization's major competitors in an industry are performing well, in part as a result of unethical activities, it becomes difficult for organizational members to choose only unethical actions, and they may regard unethical actions as a standard of industry practice. Such a scenario results in an organizational culture that serves as a strong precipitant to unethical actions.

Monitoring Unethical Behavior and Imposing Penalty What impacts do controls and monitoring have on an agent's performance? In addition to wage incentives, the agent's decision whether to behave honestly or corruptly depends on the anticipated costs of the decision. Two variables matter: First, the probability of being detected and second, the size of the

penalty. However, the behaviour of the bureaucrat does not need to be influenced by a high probability of being detected if the penalty is insignificant. Similarly, the size of the penalty may be unimportant if the probability of being detected is minimal. Mookherjee and Png (1995).

In his paper studies the optimal incentive arrangement for a bureaucracy in which a pollution inspector must monitor a firm for compliance with pollution regulations. The insights of the model can, however, be applied directly to the monitoring (and auditing) problem in other public institutions, for instance, in the tax administration if the word “ compliance” is taken to mean compliance with the tax law instead of pollution regulations. The goal of the monitoring policy is to identify and report fraud in the institution. If corrupt agents are caught they are fired. Hiring an auditor, however, does not automatically solve the problem. The problem for the principal is that the auditor is difficult to control, along two dimensions: \* The auditor may simply not work very hard to find violations (low effort).

\* The auditor may, on revealing fraud, fail to report and offer to take a bribe from the agent instead (collusion). These are both problems of moral hazard. The problem of collusion can to some extent be dealt with by engaging an (external) auditor to audit the (internal) auditor (“ hawk over hawk”). Thus, the principal may, with some probability, catch the (internal) auditor in the act of taking a bribe, and can fire him in that case. However, the problem of low effort cannot be detected through control mechanisms, since the principal cannot observe how hard the auditor is working. The solution for the principal is to design an incentive scheme that stimulates effort.

However, a pure wage solution for auditors has its limitations in reducing corruption. For payment to influence effort, payment must be related to the fulfilment of certain goals, in this case to detect and report fraud. Thus, a bonus system linked to the number of fraudulent cases reported to the principal may provide the auditors with the right incentives. The reward (or bonus) to the auditor detecting fraud must, however, match the potential bribe from the agent. In a situation where bribes are large, this may therefore result in a very expensive monitoring system.

The main point made by Mookherjee and Png (1995) is that the implementation of monitoring contracts is sensitive to strategic behaviour from the parties involved (see also Khalil and Lawarree 1995). Promoting an Ethical Climate: Some Suggestions and Strategies One of the most basic of management principles states that if you desire certain behaviour, reinforce it. No doubt, how ethical behaviour is perceived by individuals and reinforced by an organization determines the kind of ethical behaviour exhibited by employees. As a result, if business leaders want to promote ethical behaviour they must accept more responsibility for establishing their organization's reinforcement system. Research in ethical behaviour strongly supports the conclusion that if ethical behaviour is desired, the performance measurement, appraisal and reward systems must be modified to account for ethical behaviour (Hegarty and Sims, 1978, 1979; Trevino, 1986; Worrell et al.

, 1985). According to Nielsen (1988, p. 730): In many cases, managers choose to do, go along with or ignore the unethical... because they want to avoid the possibility of punishments (or) to gain rewards.

Organizations should also provide more ethics training to strengthen their employees' personal ethical framework. That is, organizations must devote more resources to ethics training programs to help its members clarify their ethical frameworks and practice self-discipline when making ethical decisions in difficult circumstances. What follows is a useful seven-step checklist that organizations should use to help their employees in dealing with an ethical dilemma (Schermerhorn, 1989; Otten, 1986): \* Recognize and clarify the dilemma. \* Get all the possible facts. \* List your options—all of them. \* Test each option by asking: “ Is it legal? Is it right? Is it beneficial? ” \* Make your decision.

Double check your decision by asking: “ How would I feel if my family found out about this? How would I feel if my decision was printed in the local newspaper? ” \* Take action. An effective organizational culture should encourage ethical behaviour and discourage unethical behaviour.

Admittedly, ethical behaviour may “ cost” the organization. An example might be the loss of sales when a multinational firm refuses to pay a bribe to secure business in a particular country. Certainly, individuals might be reinforced for behaving unethically (particularly if they do not get caught).

In a similar fashion, an organization might seem to gain from unethical actions. For example, a purchasing agent for a large corporation might be bribed to purchase all needed office supplies from a particular supplier.

<https://assignbuster.com/unethical-behaviour-by-financial-reporters-in-an-organization/>

However, such gains are often short-term rather than long-term in nature. In the long run, an organization cannot operate if its prevailing culture and values are not congruent with those of society. This is just as true as the observation that, in the long run, an organization cannot survive unless it produces goods and services that society wants and needs.

Thus an organizational culture that promotes ethical behaviour is not only more compatible with prevailing cultural values, but, in fact, makes good sense. Conclusion and Recommendations Although much remains to be learned about why ethical behaviour occurs in organizations and creating and maintaining organizational cultures that encourage ethical behaviour, organizations can benefit from the following suggestions: \* Be realistic in setting values and goals regarding employment relationships. Do not promise what the organization cannot deliver. Encourage input throughout the organization regarding appropriate values and practices for implementing the cultures. Choose values that represent the views of employees at all levels of the organization.

\* Do not automatically opt for a “ strong” culture. Explore methods to provide for diversity and dissent, such as grievance or complaint mechanisms or other internal review procedures. \* Insure that a whistle-blowing and/or ethical concerns procedure is established for internal problem-solving (Harrington, 1991). \* Provide ethics training programs for all employees. These programs should explain the underlying ethical and legal (Drake and Drake, 1988) principles and present practical aspects of carrying

our procedural guidelines. Understand that not all ethical situations are clear-cut.

Like many basic business situations, the organization should recognize that there are ambiguous, grey areas where ethical tradeoffs may be necessary. More importantly, some situations have no simple solution (Cooke, 1991). \* Integrate ethical decision-making into the performance appraisal process. In conclusion, even though ethical problems in organizations continue to greatly concern society, organizations, and individuals, the potential impact that organizational culture can have on ethical behaviour has not really been explored (Hellreigel et al. , 1989).

The challenge of ethical behaviour must be met by organizations if they are truly concerned about survival and competitiveness. What is needed in today's complicated times is for more organizations to step forward and operate with strong, positive, and ethical ultures. Organizations have to ensure that their employees know how to deal with ethical issues in their everyday work lives. As a result, when the ethical climate is clear and positive, everyone will know what is expected of them when inevitable ethical dilemmas occur. This can give employees the confidence to be on the lookout for unethical behaviour and act with the understanding that what they are doing is considered correct and will be supported by top management and the entire organization.