# THE MANAGEMENT ACCOUNTANTS AND ETHICS CONDUCT

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**Abstract**

The interest in the subject matter of business ethics has grown dramatically over the past two decades. Business managers, academicians, and the general public have come to appreciate in new ways the importance of the relationship between economic excellence and ethical judgement.

In management accounting, ethics assures internal and external business stakeholders that financial information is accurate and valid, so we.

Management accountants are at the forefront of a company's financial operations.

So, this paper is trying to highlight the standards of ethical conduct for practitioners of management accounting and financial management.

**Key words**: ethics, management accountant, financial management, information.

**ملخص**

ان الاهتمام بموضوع أخلاقيات العمل و التسيير عرف اهتماما كبيرا خلال العقدين الاخيرين، حيث أن المسيرين و المديرين، الأكاديميين و الجمهور العام أصبحوا يقدرون مدى أهمية العلاقة التي تربط الحكم الأخلاقي و الاقتصاد المتميز.

ففي ميدان المحاسبة الادارية نجد أن الاخلاقيات تؤمن المعلومة الدقيقة و الصحيحة لأصحاب المصلحة سواء كانوا داخليين أو خارجيين مما يجعل المحاسب الاداري في واجهة العمليات المالية للمؤسسة و اساسها.

من خلال هذه المقالة نسعى الى تسليط الضوء على المعايير و الضوابط التي تحكم السلوك الاخلاقي لمتهني المحاسبة الادارية و المالية لتقديم و توفير المعلومة الصادقة.

**الكلمات المفتاحية:** الأخلاقيات، المحاسبة الادارية، التسيير المالي، المعلومة.

## Introduction

It is probably fair to say that most businessmen today recognize that the maintenance of high ethical standards in their dealings with each other is also good for their firms.

Considerable evidence spports the contention that « honesty is the best policy» which

is, perhaps, another way of saying that good ethics makes for good business.

A major example citing the importance of business ethics concerning accounting is the infamous case of Enron Corporation. When the real picture of Enron was the organization racing towards bankruptcy, it was camouflaged by schemes covering up for heavy losses through fictitious organizations (raptors), indicating profitability. It was a situation when ethics in accounting were definitely questionable. This kind of scheming is as good as defrauding investors. All this was an outcome of mishandled accounting and a severe audit failure.

Now you know how important is accounting and ethics of accounting! Because the investors rely on every bit of information generated by accountants. And the cascading effects of abusing professional ethics in accounting (like divulging confidential information concerning a client) are severe. After the investor's confidence and trust are broken, the financial market of a country begins to collapse gradually. And in no time, the economy of the country is shattered. Accountability is the priority of Accounting ethics in business. Precisely, a business is no businesswithout ethics.[1]

Ethical behavior must focus on the relationships among business firms, managers, employees, customers and society.

Although a business firm has a high degree of independance in its operations, it must execute its affairs in such a way as not only to attain its objectives but also to further social values and serve the national purpose.[2]

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## Section I– Moral Codes :

When a man belongs to a larger community, the scope of his duties and possible sins become greater, and the considerations involved become more complex, but there is still a code to which he must conform on pain of public obloquy.

1 Kendra James, Ethical Dilemmas in Accounting, www.smallbusiness.chron.com/ethical- dilemmas- Accounting.

2 Robert C.Solomon and Kristine R. Hanson, It's Good Business: Ethics and Free Enterprise for the New Millenium, Rowman & Littlefield publishers, Inc, USA , 1997.

3 Robert C.Solomon and Kristine R. Hanson, It's Good Business: Ethics and Free Enterprise for the New Millenium, Rowman & Littlefield publishers, Inc, USA , 1997.

Moral codes have differed in different times and places to an almost incredible extent. This diversity of moral codes makes ud unable to say that acts of moral codes are right or acts of another kind wrong, unless we have first found a way of deciding that some codes are better than others.4

The Natural impulse of every untraveled person is to settle this question very simple, is the code of his own community is the right one, and other codes, where they differ from are to be condemned .[5]

It might be maintained that a man should obey the moral code of his own comunity whatever it may be «right» and « wrong» are not a level in the general estimation ; «wrong» is more primitive, and remains the more emphatic conception. In order to be a «good» man it is only necessary to abstain from sin ; nothing in the way of positive action is necessary.

This ; however, is not wholly the case even in the most negative view. In this way each profession comes to have its own ethical code, in part different from that ordinary citizens, and in the main more positive.

The positive duties belonging to each profession are in part prescribed by law, in part enforced by the opinion of the profession or the general public.

To deal with areas that may be considered technically legal but, in the eyes of most firms management improper or unethical, companies must develop and disseminate explicit policies, which are rigidly and expeditiously enforced if broken.

So developing a code of morals and ethics is not always simple. The frame or reference is large and sometimes complex. Consideration must be given to existing and proposed laws, family norms, society and industry as a whole, the firm, the backgrownd and desires of owners, managers, and other employees.

In spite of the complexities, researches came up with the results that large and many smaller firms have codes of conduct that are distributed to offices and employees, who periodically must sign a statement that they have read the code. Furher, these firms have specific procedures for enforcing the code and handling violations.

**Section II– Ethical conduct** :

Due to the importance of the information supplied, management accountants should observe certain professional ethical standards.

Professional management accountant organizations worldwide have developed professionalethics standards. Setting professional ethical standards is important due to the fact that:

– they provide trust in the employee–employer relationship,

4 Gilbert, Julie Y., Keys, David E., Ethics: enforcing the NAA standards of ethical conduct, Institute of Management Accountants, (USA), 1986.

5 Stephen E. Loeb, Ethics in the accounting profession, Wiley Edition, 2010.

- standards represent a reference for management accountants facing ethical dilemmas;

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- they provide a guarantee to the information users that concerning the quality of the Information.

The Institute Management of Accountants (IMA) is the most important management

accountant professional organization in the USA. IMA[6] developed "Standards of Ethical Conduct for Management Accountants". These standards require the compliance with four basic principles: competence, confidentiality, integrity, and objectivity.

1- Competence «Management accountants have a responsability to : perform their professional duties in accordance with relevent laws, regulations, and technical standards .» Technical standards clearly require the recognition of loss of value when it has occurred .

2- Confidentiality «Management accountants have responsibility to refrain from disclosing confidential information acquired in the course of their work and refrain from using them for unethical or illegal advantages either personaly or through third party.»

3- Integrity « Management accountants have a responsibility to : communicate infavorable as well as favorable information and professional judgements or opinions.»

4- Objectivity « Management accountants have a responsibility to : disclose fully relevant information that could reasonably be expected to influence an intended users under standin of the reports .....»[7]

6 (IMA) Institute of Management Accountants.

7 Marian TAICU, **ETHICS IN MANAGEMENT ACCOUNTING**, Scientific Bulletin – Economic Sciences, Vol. 9 (15)-, Accounting, Statistics and Financial Analysis .
Mosteanu T. and co-authors, curenta, **Prices and Competition**, University Publishing House, Bucharest, 2006, p. 96.

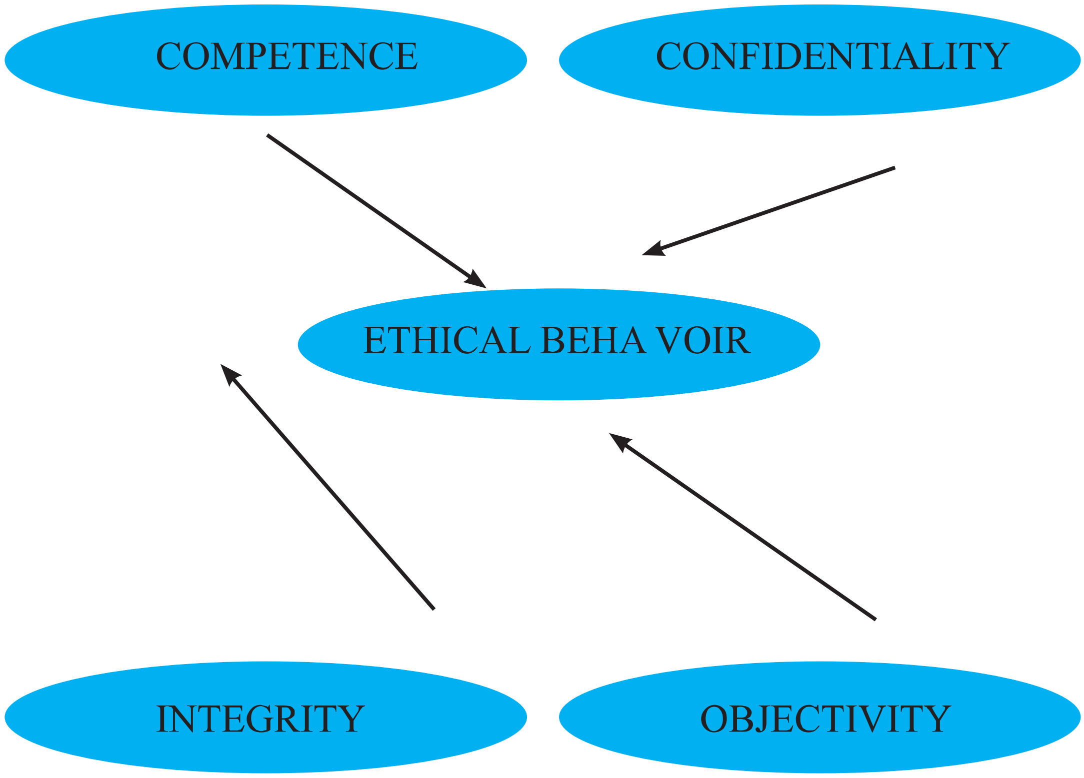


Figure 1. The four basic principles required by IMA`s ethical standards

That management accountants should fulfill and set Forth four constituencies which are :

- Organizations.
- Profession.
- Public.
- Themselves.

So, such clear statements of professional ethics may strenghten the determination of the management accountants, but they will not solve the practical problem.

An ethical standard does not provide a compelling argument for the executive maker. It will not convince him of the need to recognize a loss, publicly and formally, in a timely manner, so the management accountant needs good business reasons to make the case for disclosure.

Essentially, the management accountant needs to justify the write-down or loss recognition in terms of its effect on the relevant decision about the future health of the entity.

**– Stating the business reasons** :

Perhaps the most cogent business reason an accountant can cite is the negative impact could result if the losses are not recognized in a timely manner.

In order to recognize a loss in a timely manner, the accounatant must convince the management that the loss has occurred and that there are good business reasons for reporting it . This recognition would provide a clear signal to the innovator – the individual with a new idea– that the firm is ready to consider modification of the product line and is receptive to new ideas. A refusal to recognize potential los sis a clear signal to the innovator that he would be wise to take his ideas elsewhere .

Besides mentioning the adverse effects, the management accountant can argue ethically in favor of benefits the company would derive from the early recognition of loss, it is obvious that a sizable write- down of inventory value damages the image of success that a company wishes to project.[8]

Indeed , the net income amount and earnings per share, and such commonly used ratios as net income, sales and ROI (Return on Investment), are adversely affected by a loss.

However, unrecognized encroaching obsolescence also damages the financial picture by reducing inventory turnover and income as sales lag because the pricing policy of many firms is geared to the book value of cost of the product, an unrealistic value can effectively price the product out of the market sooner than necessary, speeding up the

actual obsolescence. So if the best alternate response to obsolescence is divesture of the decision or product line, a positive cash flow can make the segment or product line attractive to potential investors.

So, in summary, although the code of ethics for the management accountant is an appropriate step toward enhancing the professionalism of the practice, it still does help resolve some real ethical issues facing the management accountant.

The code of ethics can only strengthen the management accountant's determination to comply with these standards, however, the accountant needs to consider business reasons for this compliance . He or she also needs to convince management that there are benefits to be gained from compliance and that , indeed, there are business reasons, too.

Finally, company policy should specify clear criteria for recognizing problems in compliance and preferred solutions .

Such policies will not only make the code of ethics effective – by eliminating potential ethical dilemmas– but at the same time they can ensure company stability as reflected by the financial statement .

8 Ethics Hotline 2000, Institute of Management Accountants, Inc.

**Section III– How Ethics code inforced in the management area** :

The developement and adoption of the code of ethics for management accountants are major accomplishement for the profession and its members while many advantages from the code are envisioned, there are important issues that will arise in the selection of the method to enforce the code and the implementation of the code. These issues should be adddresssed in order for the full benefits of the code to be realized.[9]

The code of ethics to be enforced there are three methods that could be used :

- Self enforcement.
- Organizational enforcement .
- Enfocement by the government

Since there are no enforcement procedures available or adopted to implement the code by law, no organization has to oversee enforcement of the code, including the determination of whether someone has violeted the code and determination of appropriate punishement.

The adoption of the code by the organizations for which management accountants work is another potential enforcement method, under this method punishement for violation of the code could include demotion, loss of pay, or firing.

Potential conflicts between organizations and management accountants should be reduced, adoption of uniform code by organizations should enable organizations to avoid the embarassement of unethical conduct by employees.

Finally, the state government could asssume responsibility to enforce the code as another

Conceivable enforcement method. This method of enforcement would have the advanages of unifr and strong enforcement as well as implementation. The code adopted by the state government , however may not be a differet interpretation of what behavior is unethical than management accountants do, because of these factors many management accountants feel that they can regulate themseves better than the government can.

**Section IV– How the code of ethics is implemented** :

If the code of ethics is to be formally enforced, a second aspect, implementation isssues must be addressed .

While the standards represent good ideals of ethicals conduct, certain standards will have to be clarified and procedures will have to be determined for their application.

Even if formal enforcement is not nstitued, these clarifications will be needed in

9 Stephen E. Loeb, Ethics in the Accounting Profession, Institute of Management Accounting.

order to enable the management accountatnt to apply the standards in everyday

situations, at least nine implementation issues need to be addressed if the code has to

be enforced[10] :

First : the code states «management accountatnts must adhere to the code but does not define who the management accountants are that are subject to the code. The definition, which is very broad, would include, among others, internal auditors, financial accountants, and managers of the accounting function as management accountants. This definition has the advanage of applying the code to many peole ha to be motivated.

Second : The second issue is that the four costituencies mentioned above to wich the management accountant is responsible will always be affected the same way in a given situation. It is possible to be in a situation in which the accountant's action will be beneficial to one party and detrimental to another. And such situations is not easy to the managemet accountant to determine which constituency should be of primary concern to him or to her ? and if there are no priorities, the management accountant could find himself or herself in a situation in which he or she will vioate the obligation to one of the constituencies and therby violate the code. It is really a hard decision to judge the management accountant's acts to be ethically or not.

Third : The code must clarify the standar of condoning in order to allow the management accountant to act accordingly and to faciliate the enforcement of the code. Because a such hard definition of standard makes the mahagement accountant unable to comply with the code and this makes the code inconsistent when the management accountant can not distinguish between ethical and unethical action.

Forth :The competence section must be clarified in order to permit or to help the management accountant to bahave according to the standard without any doubt or hesitation for example the standard should implement or clarify how the management accountant could maintain an appropriate level of professional competence and what is this appropriate level and when the person could be considered as violating the code by acting unethically and what are the resolutions for this case.

10 CMA Alberta Code of Ethics – March 15, 2004
Paul H. Mihalek, Anne J. Rich and Carl S. Smith, **Management Accounting**, Institute of Management Accounting, December 1987.

Fifth : The fifth implementation issue deals with the code's requirement that the management accountant prepare complete and clear reports after appropriate analysis of relevant and reliable information, but the point that is not clear in this standard is that if the report is not totally complete does this mean the accountant violated the code ? if so who determine that the report is incomplete and inclear, and the same thing if the report includes irrelevant information, and when the information could be considered as relevant or irrelevant and who determine that other than the management accountant himself and his superior, so these areas need to be clarified before the accountant cana ct accordingly.

Sixth : The standards in the confidentiality section also need clarification. The accountant is required to refrain from disclosing confidential information, unless legally obligated to do so. It is quite possible that a court could request the disclosure of confidential infrmation bearing on a case «for the public good» and at the same time, the accountant's company could refuse disclosure on the basis that is not legally required. Under these circustances, to which constituency does the accountant fulfill his obligation– the public and the legal system or the company ? should the accountant follw the legal interpretation of his company and not discloses the information ? to what extent does « the legal obligation» apply ? interpretation could range from a legal request ? to a» l egal mandate».

Seventh : From the integrity section is not clear at what point would an apparent conflict of interest become a violarion of the code because there are not constraints in this section of the code, the interpreation of an apparent conflict of interest could be carried to extrems.So this standard in its current for mis too difficult to apply and to enforce.

Eighth : Active and positive subversion need to be operationnally defined since is not clarified at what point an employee's actions actively or passively sulwert the attainement of the organization's objectives and then to be considered as a violation of the code.

Ninght : Since the materiality of these acts is a relevant element to the interpretation of this standard and other standards. The implementation of the code should give recognition to materiality in the application of these standards so that insignificant violations of standards would not be considered unethical.

The NAA (National Association of Accountants) standards of ethical conduct for management accountants represents a positive step towards the professionalization of management accounting which can reduce the amount of unethical practices and reporting in business organization.

The code also is an aid to the individual management accountant by providing him

with general guidelines regarding expected professional behavior.

So to be easy to the accountant to comply with the code proprely and honestly.

**Section V- Ethical Dilemmas in Management Accounting**

How to best serve each of their varying constituencies remains a dilemma for most management accountants.

Functions actually performed by management accountants vary in accordance with the mission statement or character granted to them by top management.

On one hand management accountants are expected to monitor compliance with their organization's policies, procedures and asset safeguards.

A survey was conducted among a broad class of management and financial accountants, this survey designed to identify and assess particular kinds of conflicts for which they might seek guidance from an ethical code.

Fifteen dilemmas were identified as potential cases for coverae in a code of ethics.

Results of the survey suggeted that management and financial accountants would welcome coverage of conflicts involving interests of significant outside parties, particularily by way of public reporting.

Dilemmas ultimately difined in terms of situational conflict between leading grounds for «justification» of some suggested occupational action, absent clear priorities.

After the dictate of personal conscience, the most basic justifying factors seem to be requirements mandated by law, nonpublic professional regulation, and employer policy. Eight specific justifying factors were identified :

1- Management expectations (less basic than company policy).

2- Expectations of other major reliant parties.

3- Internalized professional values.

4- Often personal values.

5- Professional judgement.

6- Personal or family obligations.

7- Professsional career objectives.

8- Operating practicalities.

Although some of the factors might overlap, this listing generaly sets the parameters for the fifteen accounting dilemmas developed under four categories :

**Category 1**

1.2- Rationalization of management action.

1.2- Minority interest.

1.3- Suspicious aquisition of data.

1.4- Accounting manipulation.

1.5- Legaly approved concealment.

1.6- Public misrepresentation.

1.7- Nondisclosure to Auditor.

**Category 2**

2.1- Disclosure to audit commitee.

2.2- Continuing confidentiality.

2.3- Accounting solution.

2.4- Requested violation of policy.

**Category 3**

3.1- Employment dilemma.

3.2- Employee rivalry.

**Category 4**

4.1- Incompatible values.

4.2- Offencive practicalities.

The survey conducted resulted that respondents are divided in four group classes as shown in the chart below :

| Class | Results of the survey |
|---|---|
| A | The majority of respondents supported code coverage for conflicts 1-7, 1-6 and 2-3. |
| B | A plurality of respondents supported code coverage for conflicts 1-2, 1-4 and 1-5. |
| C | A significant nonplurality of respondents supported for conflicts 2-3, 4-1 and 1-3. |
| D | Is not considered significant. |

Six dilemmas from fifteen listed were identified as potential cases for coverage in a code of ethics.

The six dulemmas finally covered, three from class A, two from B, and one from class C, are discussed in three pairings :

1- Cases 1-6, public misrepresentation, and 1-7, nondisclosure to Auditor, involving allegation of outright misrepresentation.

2- Cases 1-4, accounting manipulation, and 2-3, accounting solution, reflecting more subtle potential threats to reporting standards.

3- Cases 1-2, minority interest, and 2-2, continuing confidentiality covering reasonable claims of interest parties too easily overlooked.

For example in case ofloss inventory, the ethical dilemma for the management accountant lies in :

● First, he has to figure out how to state the inventory fairly and still not upset management.

● Second, he has to consider what fair inventory valuation is, without considering the potential merger.

**Section VI- Characteristics affecting the ethical behavior of the management Accountants**

The analysis of the subject that was conducted indicated that certain characteristics of the individual and the individual's company affect significantly the management accountant's ethical behavior and methods he uses to resolve ethical dilemmas.

Those characteristics are four categories :

1- Job tittle and years of experience.

2- Publicly held versus privately held organizations.

3- Corporate versus divisional level responsibilities.

4- The impact of professional certifications.

● Job tittle and years of experience :

The individual's positions in the management structure have been consolidated in three categories :

- Uper levels of management.
- Middle levels of management.
- Lower levels of management.

The uper level managers don't feel any pressure to report the financial in contrast for the middle and lower level managers they stated a greater pressure to manage reported financial results, this from one side in the other side all levels of management felt resposible for the financial results that were materially altered by

Misclassification of expenses in a variety of methods.

Such a case like that the management is affected negatively from ethics point of view and then do not intervien to make an end to this kind of illegal acts, he or she should be considered as didn't comply with the code of ethics by the pressure that imposed on him or her to avoid such legal acts to be done by the management accountant.

- Publicly held versus privately held organization :

In both types of organizations the role of management accountant to act ethically and

In both types of organizations the role of management accountant to act ethically and legally is different, but in both of them the management can apply different types of pressure on management accountant.

The management accountant of public organization the majority of them feel a greater pressure to report a certain net income than those of the private organization which means the type of company has a great influence in the ethical behavior of the management accountant and does not help him to comply with the code of ethics, when we find that the importance of financial results is lower in private firms than in the public firms.

Corporate versus divisional level responsibilities :

These also are considered as a characteristics affecting the management accountant's ethical behavior which means the position of the accountant could be a deciding factor in how manager views his organization, his position, and his ability to deal satisfactorily with ethical situations, for instance the difference in financial reporting responsibilities and the types of financial data accessible directly affect the individual's ability to manipulate results.

The impact of professional certifications :

The results of the survey indicated that those with certification were less likely to accede to pressure to alter financial statements because they were more more confident of their positions in the organizations and more certain of peer support.

So these are the four characteristcs that affect the ethical behavior of the accountant and let him so far from ethical conduct and the ethical act.

## Conclusion

To conclude our discussion in the matter of ethics and the management accountant we can say that the management accountants have to be dedicated to their jobs going that the second mile to get the job done. But what could be stresssed too much is integrity, they must have integrity and ethics and let people know where they stand and try not to deviate from it.

As we know each day management accountant faces issues testing their ethical responsibilities. So the ethics matte ris a matter of greater importance for the management acccountant since he is an interpreter for management and such as, has an obligation to interpret correctly and accurately besides helping the management to reach that without any problems.

For these reasons the most accountants associations across the world came up with a uniform of such a code of ethics which should applied by all its members.

This code was very good sign for the management area, but eventhough that some problems of ethics still facing the management accountant because the code is not well enforced and as we know rules without enforcement tend to work very poorly and rules without adequate enforcement seem to breed a rather healthy degree of contempt, so the lack of the enforcement, the code of ethics can not domine all the ethical problems and that means that the management accountant still faces some cases where he can not distinguish between what is ethical and what is unethical, and because of that we can not or becomes hard to judge some accountant's acts as ethical or not because it is frequently quite difficult to differentiate between the concepts of ethics and social responsibility.

Actions taken in the interest of ethics are often the end result of an awarness by businessmen of their social responsibilities in the communities where they live.

Finally we can conclude that the ethics matter still always the major problem facing the management accountant eventhough the recent code of ethics that should be well adopted, enforced, and enforced in such way at least reduce the major conflicts.

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