RECEPTION OF SUPERVISORS' PRESSURE TO ACT UNETHICALLI IN ACCOUNTING

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Abstract: Because financial reporting standards permit enterprises to include judgments in financial reporting, it can also be used to select reporting methods and estimates in order to increase the value of accounting as a form od communication. The article expresses concerns over managements' pressure over accountants to disclose more favorable business economics in financial reporting. It presents findings of a survey held in Poland among accounting practitioners. The survey was aimed to analyze whether Polish accountants face pressure to act unethically in accounting.

Keywords: accounting ethics, accountants, and pressure to act unethically.

1 INTRODUCTION

Since the beginning of the twenty-first century one can observe a media tsunami presenting news regarding companies practicing aggressive accounting: AOL, Enron, WordCom, Xerox, Tyco, Rite Aid, Bernard L. Madoff Investments Securieties etc. In Europe, media reported on irregularities in financial reporting of Parmalat (Italy), Lernout & Huspie Speech Products (Belgium), Barclays Bank (United Kingdom), Universal, Swarzedz, and Techmex (Poland). While cases high-lightened in media are different in terms of economic, legal and moral dimension, they all arose from unethical behavior of accountants. Unethical behavior results from individuals' activities; so financial crises observed nowadays are results of behavior of these people. Main reasons of financial crises should therefore be found among humans: their lack of honesty or knowledge. This was evidenced in the first well-known collapse of Enron, during recent financial crises in 2008, and in Polish case of Amber Gold fraud. In many cases accountants are witnessing or participating in unethical behavior in an enterprise. Unethical behavior is one challenge among variety of others during accountants' professional career. Pressure to act unethically might occur in order to fulfill supervisors' expectations concerning amount of incomes, expenses, net profit or tax due. Executives try to make use of multiple choices of accounting law to engage accountants in window dressing of financial statements to gain earnings management goals. English language literature proves that supervisors' pressure to act unethically is the most important dilemma of nowadays accountants.

1.1 Literature review

Knowledge of legal requirements is necessary but is not the only sufficient factor affecting the way accountancy services are practiced. Understanding the consequences of choices made during preparation and presentation of financial statements is a very important element of accountancy nowadays. That is why professionalism in accounting falls outside of legal aspects. Responsibility in accounting derives from subordination, and – what's more important – is a guarantee of reliability in accounting as its products affect allocation of scarce economic resources. Lack of awareness about the importance of accounting data results in easy breaking ethical standards of the profession. The situation may be worsening by a pressure of an aggressive policy that accountants experience from their superiors. Researches conducted in the U.S. show that the pressure over unethical behavior is the main reason of ethical dilemmas in accounting.[1]

Ethical dilemmas in accounting were primary noticed in the area of earnings management and were expressed many times in recent years.[2] It was noted that management abuses of "big bath" restructuring charges, premature revenue recognition, "cookie jar" reserves or impairment of intangible assets. Pressure over accountants is being imposed mainly due to capital market motivations like investors' expectations and valuations or contracts signed by management with detailed accounting numbers used to measure financial performance of an enterprise and value management remuneration.

Professor McGee from Barry University in Florida presented survey regarding 13 countries. His findings stress that unethical behavior does not always means illegal activities. There is no distinct boundary between ethical/unethical behavior and legal/illegal actions. The survey findings show that unethical behavior of accountants might be justified by individuals' judgment regarding fairness of a tax system. Aggressive tax and accounting policy very often means illegal action with low probability of discovering the crime and punishment. It makes accountants justify their unethical behavior and it makes it easier to commit fraud more than once.[3] Also Steven E. Kaplan made a research proving that there are different kinds of earnings management in terms of ethical behavior.[4] He showed that employee's position in the organization influence his/her moral judgment regarding earnings management and that it is not possible to create a list of unethical behaviors among accountants concerning earnings management. Lack of a list with well-described unethical behaviors requires accountants to be aware of any possibility of legal but unethical action of management.

Different goals of accounting system and management incentives are well presented in the agency theory widely used in economy.[5] Theory presents behavior of two players with conflicting goals. Players might be manager and accountant as their goals are different: accountant is obliged to present true and fair view of financial position of an enterprise, while manager is supposed to fulfill his duties regarding minimum return on invested capital or net profit of a business. The theory stresses that each player has different information, which means that accountant might not know why superior makes pressure to a certain earnings management activities or tax avoidance practices. On the other hand, an accountant being hired by a manager is in unfavorable position of a subordinate. Each player is interested in obtaining his/her goals using rational instruments. That is why a justification to act unethically in accounting derives from persons' attitude regarding pressure and superiors' expectations about his/her behavior. Researchers suggest that as long as there is a social permission to act unethically and no legal punishment exists, unethical behavior in accounting will occur with low chance of disclosing it.[6]

2 SURVEY DESCRIPTION

In Poland, a research aiming to analyze managements' pressure to act unethically in accounting was not made yet. The survey conducted by the author consisted of 29 statements. Four of them indicated supervisors' pressure and these were the subject of that article. Using a seven-point Likert scale, respondents

[1] Finn, D., Chonko, L. and Hunt, S.: *Ethical Problems in Public Accounting: The View from the Top*. „Journal of Business Ethics" 1988, Vol. 7, pp. 605–615. Cruz, Ch. A., Shafer, W. E., Strawser, J. R.: *A Multidimensional Analysis of Tax Practitioners' Ethical Judgements*. "Journal of Business Ethics" 2000, Vol. 24, pp. 223-244. Donaldson, T., Dunfee, T.W.: *Toward a Unified Conception of Business Ethics: Integrative Social Contracts Theory*. „The Academy of Management Review" 1994, Vol. 2, pp. 252-284.

[2] Healy, P.M., Wahlen, J.M.: *A Review of the Earnings Management Literature and its Implications for Standard Setting*. „Accounting Horizons" 1999, Vol. 13, pp. 365-383. Indjejikian, R., Matejka, M.: *CFO Fiduciary Responsibilities and Annul Bonus Incentives*. "Journal of Accounting Research" 2009, Vol. 47, pp. 1061 – 1093.

[3] McGee, R.W., Tyler, M.: *Tax Evasion and Ethics: A Demographic Study of 33 Countries*. "Andreas School of Business Working Paper" 2006, Barry University, Unied States of America.

[4] Kaplan, S.E. *Ethically Related Judgments by Observers of Earning Management*. "Journal of Business Ethics" 2001, Vol. 32, pp. 285 – 298.

[5] von Neumann, J., Morgenstern, O.: *Theory of Games and Economic Behavior*. Princeton University Press 1953.

[6] Gibson, A.M., Frakes, A.H.: *Truth or Consequences: A Study of Critical Issues and Decision Making in Accounting*. „Journal of Business Ethics" 1997, Vol. 16, pp. 161-171.

were asked to indicate the appropriate number showing their agreement or disagreement with each statement. A score of zero (0) represented strong disagreement with the statement, while a score of seven (7) represented strong agreement. The survey was held among public and private university students. Participation in the survey was voluntary and no remuneration was offered. Over tree hundred questionnaires were collected. Although the survey was made among accounting faculty working and non-working students only, less than 30% of respondents were accounting practitioners, and only 1 out of 87 questioned students were male student.

The following hypotheses were made:

1) A supervisors' pressure exists among accountants practitioners in Poland.
2) Accountants do need the knowledge how to fight that pressure in order to maintain high quality of professionalism.

2.1 Survey findings

Personal ethics is an integrated part of accountants' professional life as legal regulations' knowledge might not be enough to make decisions regarding valuation methods or disclosure of information in financial reports. Moral standards change within years spent in the profession, and differs among women and men. It also depends upon the position level in the organization. That is why demographic data were collected in the survey and respondents were divided into subgroups. Charts 1-3 present demographics characteristics of subjects.

Chart 1: Demographic characteristics: position level in organization

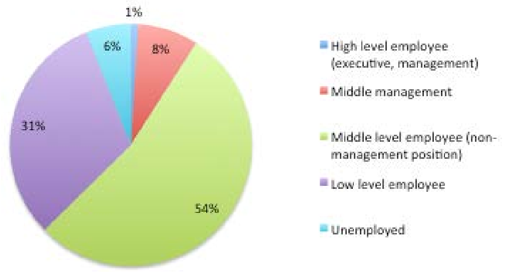


Chart 2: Demographic characteristics: Level of education

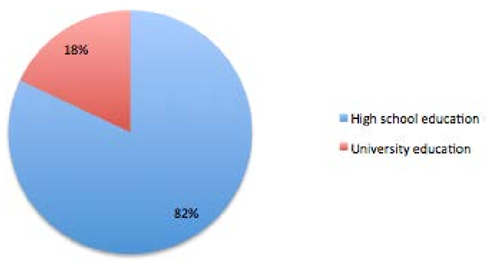
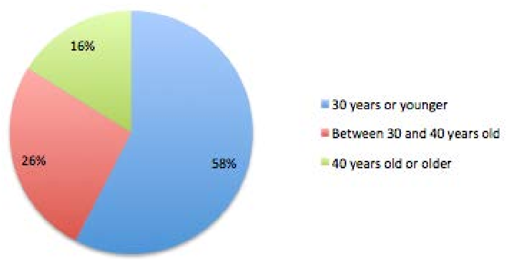


Chart 3: Demographic Characteristics: Respondents' age.



Most of respondents were (82%) young women (57% of subjects were less than 30 years old) having high school level of education (82%). 53% of respondents were middle level employees in accounting departments, while 31% are low level accounting employees. Demographic characteristics prove appropriate subjects' choice, although small group of older accountants (16% are 40 years old or older, and 26% are between 30 and 40 years old) is a limitation of the survey. Statistical analysis was mainly based on descriptive statistics that are presented in table 1.

Table 1: Survey findings and descriptive statistics.

Statements	Arithmetic mean	Median	Min	Max	First Quadrille	Fourth Quadrille	Variance	Standard deviation	Coefficient of variation
Financial statement misinformation is ethical when supervisor asks accountant to do it	3,13	3	1	7	2	4	2,81	1,68	53,6
Accountant has no possibilities to protect from supervisors' pressure to act unethically	4,07	4	1	7	3	5	2,67	1,633	40,16
Tax evasion is ethical if accountant is the only person in his family earning money and he is afraid that refusal of fulfilling supervisors' requirements will end in dismissal from work	2,86	3	1	6	2	4	1,96	1,40	48,9
Accountants need instruments to protect them from supervisors' pressure	5,59	6	3	7	5	7	1,29	1,14	20,3

Midpoint of ranked values for last statement, as well as minimum and quadrilles prove that supervisors' pressure exists among Polish accounting professionals. Other results show that supervisors' pressure to act unethically is a moral dilemma connected with accounting profession. It is statistically significant that 80% of respondents marked 5, 6 lub 7 (in seven-point Likert scale) when indicating their agreement with the last statement. Hypothesis number 1 was accepted.

A survey instrument of U Mann Whitney test ($p<0,05$) was used to differentiate respondents' indications between levels of education.[7] Received results of the survey carried out among Polish accountants do not vary from the results of tests carried out in the world. Persons having higher education, which typically operate at higher levels of management in organizational structure of enterprises, have a greater awareness of ethical dilemmas in accounting.

For analyses with more groups (breakdown by age, duration of work or position level in organization) the t-test for independent samples and Levene's test (homogeneity of variance; $p<0,05$) were used.[8] Results show that persons at the beginning of their professional life (1-5 years of work) are the least convinced about the occurrence of ethical dilemmas in accounting. Greater awareness can be observed among seniors with long professional experience.

Hypothesis number 2 was accepted, because the results show that accounting professionals lack the ability to fight supervisors' pressure to behave unethically. In Polish university education of accountants there are no courses that aim at teaching future accountants how to maintain objectivity and high standards of professionalism while being in span of control of supervisor. The survey shows that there is also a need to improve accountants' awareness concerning usage of accounting techniques to earning management. Summarizing, legal and professional instruments should be worked out to help accountants deal with the supervisors' pressure.

3 SUMMARY

The author of the article is convinced that accounting professionals as well as managers do not falsify financial statements. However, it is possible that one can observe

[7] Maruszewska, E.W.: *Analysis of decision making factors concerning ethical dilemmas in accounting*. University of Economics in Katowice, Poland 2010. Not published, in Polish.

[8] Maruszewska, E.W.: *Analysis of decision making factors concerning ethical dilemmas in accounting*. University of Economics in Katowice, Poland 2010. Not published, in Polish.

unethical behaviors and practices in business organizations, that shouldn't have happened. The survey proved that even young accountants are convinced that accounting profession is in jeopardy to exercise pressure to act unethically. It is important, that at the time of unethical pressure, accountants are aware of it and are able to prevent it. To be able to turn down management pressure to act unethically one has to define ethical dilemma in accounting. Clear and proper naming of conflicts existing in the organization together with managements' and accountants' obligations taken, might be the first step in accurate answer to superiors' pressure. Dealing with dilemmas that emerged from different expectations and obligations requires competence and ability to highlight common good of the organization and social community. It also depends on how one understands leadership role of financial director or chief accountant.

Thus, when offering accounting services (whether in the form of employment contract or in any other form of rendering services) it is crucial to clearly identify the role of a person performing accounting services in the organization. Both, manager and accountant want to "win", to achieve their conflicting goals. The goals derive from personal expectations and employment obligations and there might be different and conflicting ways to achieve their goals.

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