

Ethical and Cultural Issues in Accounting and Finance

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Abstract

Encouraging high ethical and cultural practices in accounting and finance is an imperative. It is a collective responsibility of members and other stakeholders including statutory regulators. One believes that when ethics and culture are combined in the practice of accounting and finance, the result will be an enterprise with integrity and ingenuity. The focus of this paper is ethical and cultural issues in accounting and finance. Descriptive methodology was employed in this study. We found that socio—economic problems, institutional and supervisory inadequacy and lack of professional integrity are traceable to misdeed of some personnel who belong to the subject under discussion. However, in spite of the above challenges, we discovered among others that: emphasis on human resources will enhance self-actualization and professionalism; an entity with good cultural and ethical background backed with laws and regulations encourages compliance and conformity; combination of skill with integrity will uplift ethical and cultural standard without affecting creativity and initiative. We recommend among others that accountants and finance analysts must play a meaningful role to keep directors and management on their toes. Laws have to be enforced strictly or amended where it is loose, to ensure maintenance of high ethical and cultural practices on the topic being discussed. Judicial orders to discover, trace and freeze the benefits accruing from bad conduct should be possible. There may be need for bi-lateral and multi-lateral co-operation to ensure that high ethical and cultural values are adhered to especially now notably companies world-wide are involved in financial and accounting irregularities.

Keywords: Ethical issues, Cultural issues, Accounting and Finance

1. Introduction

The pursuit of ethical and cultural issues is a world-wide affair and cuts across professions. Its violation especially in accounting and finance attracts severe disciplinary action against the violators. At times, action of some persons affect the organization they are working for, to the extent that will make the entity to look for additional funds or apply for outright bankruptcy, if it is a business concern/ entity.

It will amount to bringing down a nation's economy if there were no ethics and culture that guide financial and accounting practitioners. The reason is because they deal in, interpret, and recommend among others financial matters relating the economy of a nation. Again, their importance in the economic system necessitated the formation of various professional bodies such ICAN, ANAN, CITAN, CIBN, CISBN for capital market, etc.

History of banking development in Nigeria before 1952 portrays why practitioners in accounting and finance need a well-tailored code of conduct to guide members. Anyanwaokoro (2001) referred to the above era as a free banking period when anybody who wished to open a bank could do so, once it is registered as a going concern. However, in December, 2000, Bankers Committee of Nigeria established a sub-committee on ethical and cultural practices in banking and finance houses. The fifteen (15) member committee was charged to:

“identify unwholesome practices in the industry, develop an acceptable code of conduct as well as put in place effective enforcement compliance with the code”

A year later, the committee published the code of conduct that will guide members in banks and finance houses. Similarly, the accounting body has its own as the Nigeria Accounting Standard Board. It's responsibility is to develop and issue accounting standards for accountants who prepare financial statements and those who have interest in the contents of such statements. The board was established in 1982 to among other things:

- Formulate and publish accounting standards that will be accepted and adopted in preparing financial statements by accountants and those who make use of financial statements.
- To promote and sponsor legislation in order to ensure that the developed and published standards are given national acceptance and compliance.
- Review often times, the standard which have been developed by the Board in the very dynamic society.

Nnadi (2003) posited that the setting up of this board became imperative following the promulgated Nigeria Enterprises Promotion Decree to transfer ownership of foreign companies to Nigerians. Expatriate managers of the companies affected by the decree according to him, took advantage of non-uniform accounting standards in Nigeria to value their equity and shares holdings the way they wished. They obeyed the directives and instructions of their parent companies in their approach to accounting practices.

The Nigeria Accounting Standard Board was given legal backing in 1990 when the companies' law was reviewed with the inclusion of section 335(1) that states:

“The financial statements of a company prepared under section 335 of this Decree shall comply with the requirement of schedule 2 to this decree.....”

The board has remained the body charged with the responsibility of setting standards for financial accounting and reporting. The major role of the board is to ensure that financial statements are uniform in content, format and being able to communicate exactly what they meant to convey. The board is sponsored by thirteen organization and associates which are professionally inclined to financial reporting. Ensuring compliance with the statements of accounting standard is either by voluntary or mandatory, the later being required by law.

It is against this background that this study explores the ethical and cultural issues in accounting and finance. Following this introduction is prior research regarding ethical and cultural issues in accounting and finance. Section three explores culture and profession while section four explores behavior patterns, norms and values in respect to ethical and cultural issues in accounting and finance. Section five and six explores the importance of values, and the need for rules and sanctions in accounting and finance respectively. Section seven concludes the paper while section eight is concerned with the recommendations.

2. Prior Literature.

Ethics is the attitude of people or an individual in relation to moral law that is hinged on their or his free decision. It is at times, taken to be a clear mental or moral nature as a result of superiority in strength or number of particular value, asserted Brugger and Baker (1974). According to them, good ethical conduct is a man's free action that gives positive objectives to ethical and moral law.

Offiah (2000) postulates that ethics is a system that relates to morality in which people and corporate entities conform to acceptable good behaviour. Similarly, Philip (1998) held that ethics is the generally accepted code of conduct formulated to enhance good ethical practice in our business especially accounting and finance sectors. He stated that ethics has relationship with the quality a person possessed from birth as well as acquired moral philosophy expressed in the names, ways of thinking, feeling or behaviour of people and groups that take part or are involved in an activity such as accounting and finance practice.

Ethics comprises statutes that have been documented, journals, published information and official announcement made known to the public by regulatory authorities and statutory bodies. All the above documentation will guide professionals, as explained by Orhingur (2003), on the day to day practice of their profession. As a branch of philosophy, ethics is looked at as a normative science since it is concerned with norms of human conduct (Nnadi, 1998). He further opined that moral character means moral uprightness peace with the gods and with men. He further said that, purity is necessary for blocking the anger of the gods or the activities of evil spirit. Ethics according to Elegido (1996) helps in knowing how to behave to ensure that practice of one's profession flourishes, succeeds, is fulfilling and worth emulating. To him, it helps us to decide on how we are going to act, not just to achieve a certain objective but every thing taken into consideration. In fact, ethics demand that for any entity to be successful, it has to do things in the proper ways that are acceptable to the public. When this is so, it will manifest itself in higher standard of professionalism.

Accountants and finance experts with better training background according to Olajide (2003), possess good reputation and tend to show that good ethical orientation in them. In their business, reasonable profit rather than maximum profit coming from dubious method is always the watch-word. Personnel in such firms demonstrate their readiness to take tough decision without hesitation. According to Badaracco (1992), financial analysts who met behind closed doors to disclose classified matters for exchange of some money were not discussing on moral decay in financial sector but were only violating the laws and the trust their clients reposed in them. Therefore, our main task is to decide on those things that are right and do them rightly,

On the other hand, culture is a word that has been unable to be put aside, with passage of time and conditions that never had life, Okafor and Emeka (2004). Polish-American educationist and anthropologist, Malinowsk (1931) defined culture as:

“ A set of instrument, partly material; human and spiritual through which a society recognized groups”.

The above definitions tells how culture answers some questions of identity such as who am I? where do come? Where do I belong? Where am I going? Shall I continue to be?. Culture is at the centre of life of people within their grouping. In 1988, the cultural policy of Nigeria defines it as:

“aggregation of way of life that unfolded naturally and gradually by a people in their efforts to meet the task of living in their environment; giving order and meaning to their economic, aesthetic, social, political, religious norms and mode of organization, , hence differentiating a people from their neighbours”

Emeka (2004) described culture as the aggregation of experience of a people, professional groups, etc, in their attempts to master their environment or higher quality of life. He described it as man-made part of the environment which is important to life in a human setting and that it is dynamic.

3. Culture and Profession

Culture is a word in which groups of human beings, people with friendly feeling and undertaken have an interest and concern. It has also other definitions and each is adhered to with fanatical zeal. To social scientist, it means:

“Sum total of all the internal and external conditions that affect existence, growth and welfare of organisms, Okafor (1991)”.

Human beings have since the beginning lived in a cultural environment made up of various professional grouping in which they depend completely on; to observe, accommodate themselves in and try to master, explained (Hunter and Whitten, 1976). To master the cultural environment, they stated, is having new plans, watching carefully alterations in life styles, physical activities and mentality that can be explained as cultural development which in turn enhances professional growth.

Culture is a mark or quality of human groupings that shows clearly, in its entirety, the way of life of members of that group (Okafor, 2004). It sets the value system, the norms, the productive and the creative experience as well as thinking of the members. He also posited that:

“Success or failure, conformity or non-conformity, the rights or the wrongs, the acceptable and distasteful relating to the governing thoughts, words and deeds by members of the profession are dictated by the culture which provides the ever-present mechanism of social order”

4. Behaviour Patterns, Norms and Values

Members of all professional groups, of which accounting and finance are one, exhibit certain regularities in their patterns of interaction (Fitcher, 1973). He stated that they often involve behaviours in which members put pressure on one another to adhere to some recognized standards. This state of being regular in group behaviour is expatiated as social norms, he concluded. Backmen and Secored (1974) regarded it as an expectation which the group members share as specified and considered suitable or correct for a given condition. In this phrase, they held that behaviour is, generally formed to include openly, publicly or verbally shown hostility that is linked to an individual thought, perceptions and feelings. Their views agree with the objectives of professional bodies in accounting and finance which have standard rules against bad conduct or behaviour.

Following social norms argued Thibaut and Kelly (1959) are the ways through which they are enforced. To them, there are means by which members of a group give information to themselves on the nature of appropriate or in appropriate behaviour. Not left out is the way pressure is put on other members to comply to the norms and the rules needed to increase the norms upwards or reduce them, since they define and enforce the processes.

The environment, according to Onwuejeowgu (1975) provides little structure where individuals have some resistant to perform particular actions that are important to the performance of the group. He held that normative process should be formulated to provide a framework to make sure that way of behaving is adhered to.

Encylopaedia of Social Psychology defines norms as a standard for referencing in line with which an organization, state, individual or set of rules is approved or otherwise. We can talk of quality of being useful or desirable way of behaving patterns for those who perform those patterns. As a result of existent of values, persons who are worthy to be evaluated and who are equally competent to evaluate not only others but things as well exist.

Social role is the structure by which we clearly, definitely state and mark values (Mitchell, 1977). He held that it is an expected behaviour linked with social status which identifies a role. Hence, the position of an accountant or finance analyst identifies a singular body of expected way of behaving of the two professionals mentioned above. If there were no values in any profession and were not known to differ in degree of importance, such profession will definitely loose its mechanism of social control.

5. The Importance of Values

Fitcher (1973) posited that values are conceptually recognized, emotionally charged, shared in common, taken seriously and they act as norms of judgment. According to him, they (values) are not things sought for but are what gives those things sought after importance. They are used as norms and parameters which direct the way to aims and goals, the author outlined six needs for social values viz:

- i. They provide the means used in judging the social worth of a person. Values help someone to know his position in the eyes of the public. Accountants and finance analysts do not escape public eye when it comes to matters relating to accounts and finances.
- ii. Values help to focus public attention on cultural items and, materials which are looked upon as being desired, important and useful. Such valued items may not be the best for a person or group of persons but because they are social valued items, make them attractive and worthy to strive for. Accounting and finance professions may not be the best but because of high social recognition accorded to a person(s) in the profession, people strive to become members.
- iii. Values form a type of rules or conduct of social way of behaving that are acceptable which enable professionals in the subject under discussion to know the best ways of acting and thinking.
- iv. They (values) act as means of social control and social pressure by influencing accounting and finance personnel to comply to the rules and regulations. Values also encourage personnel in these professions to do things properly and correctly as well as giving esteem that is merited. They act as restraining factors against disapproved way of behaving, prohibited styles, feeling of shame and guilt likely to come from social transgressions. One can imagine the level of guilt and shame that trailed those indicted Chief Executive Officers of some failed banks and other business entities.
- v. Values are like guide-post which professional groups or people use in making choice and fulfillment in their social roles. They create interest and provide encouragement to enable people understand that demand and expectations of various grouping are working to achieve a worthwhile objectives.
- vi. They function as means of solidarity. It is an axiom among social scientists that the group cluster around and are united by common shared values of high order. People are attracted to others who share and cherish the same values, just as we have in Accounting and Finance Journal. It may be said that values are among the most important factors that create and maintain social solidarity.

6. The Need for Rules and Sanctions

According to Okafor (1981), there are some needs for rules and sanctions which should guide how people act in the society, social and professional grouping. They are follows as:

- a) *To check social misbehaviour:* in every social setting of which accounting and finance are among, there are rules and regulation guiding how members should act. They are needed in order to check-mate professional misconduct. The sanctions could be in form of avoidance, ostracism, punishment, withdrawal of practicing license, etc.
- b) *Improving social co-existence:* Rules and regulations define relationship between various grouping. If the social relationship is defined by rules and regulations, members of the group will then know their rights, duties, obligations and be able to obey them. By obedience to the rules, they avoid running foul of the said rules. Professional bodies in accounting and finance have been able to stay together because of obedience to the code of conduct guiding members.
- c) *To improve morals:* Some rules help to bolster morality. For example, in accounting and finance professions, members are urged not to falsify accounting records, as it dents the image of members. What happened in some of the failed banks in Nigeria between 1999-2011 resulted from distortion of financial records by auditors and financial analysts.
- d) *Develop and maintain culture:* the rules that encircle all sphere of social life and culture like how one dresses, responds to others, behave in public, help to develop and maintain culture.

7. Cases of Questionable Ethical and Cultural Practices in Accounting and Finance

Our renewed concern about ethical and cultural practices in accounting and finance bring us to the following events or transactions on both local and foreign fronts.

- Alpha Merchant Bank ran into accounting problems and market manipulations. Former Intercontinental Bank Plc, Oceanic Bank International Plc and some others got themselves involved in questionable ethical insider deals, granting of loan secured by share certificates which is a volatile collateral and other financial irregularities, reported Abdulai (2003).
- Lever Brothers Plc exaggerated profit earnings simply due to questionable accounting methods which resulted in the creation of false market securities. The African Petroleum (AP) covered –up about N24 billion credit facilities despite due diligence review carried out by the core investors and the reporting accountants disclosed Adeola (2003). These questionable ethical and cultural creative accounting system, he stated, wouldn't

have gone undetected with good corporate accounting and finance practice being in place.

- Enron which is energy giant in U.S.A and had been audited for years by Arthur Anderson and Co now disagreed. Telecommunication giant like WorldCom has filed for bankruptcy after admitting to improper accounting to the tune of \$4 billion while Quest International which is another telecom. giant admitted guilt of improper accounting as well. Xerox photocopier equally admitted inflating its sales figures over 5 years by \$6.4 billion and was fined \$10 million following U.S.A SEC investigation into its accounting practices, disclosed Abdulai (2003). The loss of confidence resulting from these accounting and financial fraud shook the stock market around the world to their very foundations, lamented Nnadi (2003). And he asked:

“Where were the auditors who are supposed to be watchdogs” Osadorlor (2002) puts it this way:

“It is the spirit and ethics of free enterprises that are directly assaulted by the corporate waywardness of Enron and others. Are market forces the actual results of demand and supply colliding and finding equilibrium , or the machinations of fraudulent influence peddlers in the economy?”

7. Conclusion

Promoting ethics and culture in accounting and finance professions remain critical for maintaining high standards. It is very important for accountants and finance experts to lay emphasis on humans resources which will enhance self-actualization and professionalism. There must be strict observance of the laws, rules, regulations and codes that have been developed for orderly conduct of members in the two fields.

There is a need to monitor closely questionable ethical and cultural practices that tend towards economic and financial crimes. With globalization on the increase, various national governments must be aware of dangers around them, and possibility of financial harm that can be done to their economies by international fraudsters.

The attainment of high ethical and cultural governance in accounting and finance is a collective responsible of all members and other stakeholders. The regulators, therefore, have a critical part to play in shaping and maintaining the legal framework for developing and improving good ethical and cultural practices in the subject under discussion. The accountants and finance analysts on their part, must play a meaningful role to keep directors and management on their toes. In any capitalist country, accountability is the livewire, hence the need to have a culture of transparency and accountability.

Accountants and finance analysts with questionable character need to be monitored to prevent them from perpetrating financial crime. Those who committed unethical and uncultural financial crimes should be avoided by lawyers who normally render legal services to them. A system of good ethical and cultural background strewn with laws and regulations will encourage compliance and conformity with a code of practice. Again, a professional body that combines enterprise with integrity will definitely promote good ethical and cultural standard without stifling creativity and initiative.

Lastly, the key safeguards to ethical and cultural practices are well constituted executives with separation of powers.

8. Recommendation

- The accountants and finance experts must play a meaningful role to keep directors and management on their toes.
- Laws have to be enforced strictly or amended where it is loose to ensure that ethical and cultural practices are maintained to the highest standard. The use of judiciary orders to discover, trace and freeze benefits accruing from bad conduct should be possible.
- There is a need to develop other methods of monitoring or checking some of the professionals under discussion who are engaged in certain business activities from denting the image of the noble profession.
- Judicial personnel should be trained adequately on handling of sophisticated crimes that may arise from ethical and cultural misbehavior or misconduct.
- There may be a need for bi-lateral and multi-lateral co-operation to ensure that high ethical and cultural values are adhered to especially now that notable companies world-wide are involved in accounting and financial irregularities.
- Accountants and financial experts who committed ethical and cultural crimes should be avoided by lawyers who normally act as attorney to them.
- Different countries should guard against possible financial harm that can be done to their economies by fraudsters who belong to legally recognized professional bodies in accounting and finance.

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