

Role of Management Accountants in Developing Corporate Ethical Culture

A paper produced by the Research & Publications Department, ICMA Pakistan.

The Management Accountants have a role to play in developing ethical policies and guidelines for creating a sound ethical culture in the corporate sector in Pakistan. Being compliant with the professional code of conduct and ethical standards, a competent management accountant always demonstrates high level of personal integrity, objectivity and professional competence. He utilizes his professional expertise and business acumen in reviewing the company's operating and cost-recording processes and systems, thereby recommending cost minimizing measures and options.

The management accountants act as the 'gatekeepers' of companies by identifying and reporting violations and malpractices at different working levels of company. The company boards can rely on their professional input and advice to make decisions, such as those related to assessment of company's internal controls, production costs, compliance status and reliability. This paper presents the different possible roles of management accountants in developing ethical policies; creating ethical culture; handling

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ethical dilemmas; advising boards in implementing corporate governance, and ethical role as professional practitioner. Before discussing these roles, it would be better if we understand the meaning of 'ethics' and 'professional ethics'.

'Ethics' and 'Professional Code of Ethics'

'Ethics' is defined as a system or set of moral principles that deals with human values with respect to the rightness and wrongness of actions and the goodness and badness of motives and ends. The Webster Dictionary defines 'ethics' as a discipline dealing with what is good and bad with moral duty and obligation.

'Professional Code of Ethics' are the moral values that a group of people (professionals) uses to control the way they perform a task or use resources. It is the yardstick by which the ethical performance of professionals is measured. The professional ethics guides a professional in decision-making when values are in conflict. The professional ethics signify a framework for discipline

that helps build public confidence. In the context of corporate companies, the code of ethics creates a sense of accountability in the employees as they self-evaluate themselves in the presence of a set ethical code and can differentiate between acceptable and unacceptable behaviors in the organization.

The Management Accountants have to face moral issues in the performance of their duties. These issues can either be of operational or financial nature or those related to cost and production. On occasions, these issues may lead to disagreement with the higher management. The professional ethics demand that the Management Accountant must follow moral values and disclose the correct judgments.

Role of Management Accountants in developing 'Corporate Ethical Policy'

A management accountant, employed in business and corporate sector, can extend his professional services in developing the ethical policy or code of ethics as per company's own needs and values. The ethical policy should be aligned with the vision and mission statement of the company and identify articulated and unequivocal values of conduct and operation, such as communications and reporting, product safety, gender relations, gift taking, etc. In addition to personal ethics like honesty, fairness and integrity, a company's ethical policy may also include principles like company loyalty, corporate social responsibility, etc. The management accountant must ensure that the ethics policy should promote high job standards; guides in decision-making and provide benchmarks for performance evaluation.

If the management accountant is able to develop ethical values, behaviors and practices, it would have a positive impact on the company's reputation and standing in the market. It would reinforce the moral principles and commitments of the company and set a direction for its employees to remain adhere to the company's set ethical code and values. It would let the external stakeholders know about the norms and values in doing business with the company. The ethics policy would also encourage a culture of trust, integrity and openness in management and business practices.

A management accountant should ensure strict ethical compliance within an organization for the benefit of the organization and the employees. The use of ethical standards would help develop positive and congenial working atmosphere. Before establishing corporate ethical policies, a management accountant should

understand both the advantages and disadvantages of ethical compliance in an organization.

Role of Management Accountants in creating 'Corporate Ethical Culture'

A management accountant must take a lead not only by creating an ethical culture in any organization but also by protecting it through active promotion, practice, training, updating and making it visible

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to external and internal stakeholders. They should make efforts to realize the ethical culture as a living part of the official work at every level and operation of the company. The following steps are required to be taken by the management accountants in order to create ethical culture in any organization:

- 1) Complying with regulatory requirements
- 2) Developing a comprehensive Code of Ethics
- 3) Implementing Code of Ethics
- 4) Evaluating the Ethical Performance

(1) Complying with regulatory requirements

The ethical policies or corporate governance codes are mostly backed by legal and regulatory requirements, framed by the government institutions, which need to be complied with by the companies. Any violation of these laws and regulations can bring significant liability for the companies, its directors and management. As such, it should be the primary focus of any company, intending to create an ethical culture, to comply strictly with the national laws and regulations and make adequate ethical disclosures, as required by the law and regulations of the government. This function is mostly assigned to a designated 'Ethics Officer' who is responsible for all reporting and disclosure requirements. The management accountants can assist the Ethics Officer in discharging this function as they possess the professional expertise in this regard.

(2) Developing a comprehensive Code of Ethics

The first and the foremost step towards creating a corporate ethical culture is to develop a comprehensive code of ethics which need to be adopted by the Board of Directors. A code of ethics or a code of conduct is a combination of business standards (e.g. products quality, customer satisfaction, health and safety etc) and values (e.g. honesty, integrity, trust and confidence etc). An ethics code is a blueprint for developing a culture of values in any organization, consisting of a set of guidelines to be followed by all the employees. In fact, it acts as a reference tool for them as to how to apply business ethics at workplace. A code of conduct provides useful guidelines to the employees on their ethical responsibilities, especially in the area of 'conflict of interest', which covers actions or conducts such as those related to acceptance of gifts and gratuities, disclosure of financial interest, involvement in another employment outside company etc. If any employee departs from

this guidance, he has to justify such a departure.

(3) Implementing Code of Ethics

The second step toward creating ethical culture is to implement and institutionalize the code of ethics in the organization. This process demands an integrated and systematic application of key inter-related components of the ethical code or program, through active engagement with the internal and external stakeholders. Some of the actions that could be needed for implementing the code of ethics are as under:

- o Formation of an Ethics Committee or Sub-Committee at Board level for strategic leadership
- o Setting up an Ethics office at the management level with dedicated staff
- o Conducting Ethics training programs for the employees
- o Reporting and disclosure of ethical performance to external stakeholders
- o Developing a 'whistle-blowing' system to identify ethical misconducts

An effective communication system need to be designed at the company level to remind the employees from time to time about their ethical responsibilities, guide them to practice ethics and remove any hardships they face in its implementation. Such communication system may include general meetings, manuals, trainings, orientations etc. In many organizations, especially in the developed countries, 'ethics hotlines' are also established for advising the employees facing 'ethical dilemmas' and for reporting suspected ethical misconducts, with complete assurance of anonymity and confidence.

(4) Evaluating the Ethical Performance

The final step that is needed for creating ethical culture in any organization is to put in place a sound and continuous mechanism for evaluating ethical performance and its effectiveness, through external independent verification of ethical code assurance of performance. The internal and external stakeholders should be consulted to seek their views on organization's ethical performance and to bring continuous improvement in the ethics program with their suggestions. The employees setting good examples of ethical

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behavior or conduct need to be rewarded by the company to encourage others. Similarly, those employees who deviate from the set ethical guidelines or violate the company policies need to be punished by initiating some disciplinary actions against them as this would ensure effective future compliance.

Role of Management Accountants in handling 'Ethical Dilemmas'

The business environment at present is highly competitive, demanding and fast-paced and employees, especially those

Top 10 Corporate Scandals of the World

No	Company Name	Founded	Country	Industry	No. of Employees	Type of scandal
1	Enron	1985	USA	Energy	22000 (approx.)	Bankruptcy
2	WorldCom	1983	USA	Telecommunications	30,000+	Fraud
3	HealthSouth Corp	1984	USA	Healthcare	23,000	Fraud
4	Ponzi Scheme			Fraudulent Investment operation		Fraud
5	Tyco International	1960	USA	Security	102,000	Theft
6	Xerox	1906	USA	Document services, Digital imaging, IT services, IT consulting	139,650	Securities Fraud
7	BP Oil Spill	2010	USA	Petroleum		Largest marine oil spill
8	ImClone Systems Inc		USA	ImClone Systems		Fraud
9	Compass Group	1941	U.K.	Support Services	471,108	Bribery
10	Union Carbide	1917	USA	Chemical Manufacturing	2400	Industrial Disaster

involved in creating management accounting information, in every organization have to occasionally face different nature of ethical dilemmas. It is the responsibility of the organization to provide necessary knowledge and resources to their employees to facilitate them in acting responsibly and ethically to these dilemmas. The question is what a management accountant should do, in case he confronts an ethical dilemma at his workplace? Before knowing this, we must understand what ethical dilemma means.

An ethical or moral dilemma can be defined as a situation in which there is conflict of interest or obligation and it is unclear what decision is to be taken that is ethically and morally acceptable. The ethical dilemmas faced by different organizations may either be organization-specific or industry-specific; however there are several ethical dilemmas which are common to all organizations.

A management accountant must handle all the ethical dilemmas that he faces in his organization with much wisdom as any wrong decision could have a negative impact on the company. A management accountant should guide the top executives and decision-makers in his company as to what are unethical practices used in the company or by its suppliers, contractors, distributors or sales agents, and how they should tackle different kinds of ethical issues. Some examples of unethical issues are highlighted below:

- 1) Ignoring health, safety and environmental standards and best practices
- 2) Violating the basic rights of workers
- 3) Using child labour or forced / illegal labour
- 4) Interfering in privacy and autonomy of employees
- 5) Neglecting to provide fair working conditions to employees
- 6) Avoiding full disclosures of important business information in financial statements

A management accountant must keep in mind that dealing with ethical dilemmas or issues is not an easy task and often such issues become more complicated when the violators are the internal stakeholders i.e. higher management or colleagues within the company. On many occasions, ethical dilemmas are related to external or third party transactions. The following are few examples covering both kinds of dilemmas:

Internal Ethical Dilemmas

- o Disclosing inflated profits on financial statements
- o Not disclosing true company losses in Income Statement
- o Using company's resources for personal use

- o Manipulating company's funds and profits
- o Violating company's purchase policy

External Ethical Dilemmas

- o Giving bribe for getting some work done
- o Paying extra amount for a products that costs less
- o Taking kick-backs on purchase contracts
- o Rigging in bids or tenders to favour any supplier
- o Involving in anti-competitive market practices

The following specific steps can be followed by a management accountant to take decision while handling or resolving an ethical or moral dilemma:

- 1) Identify the ethical issue or dilemma
- 2) Identify the employees / stakeholders involved and assess the negative or positive effects of any decision to be taken to penalize the violator of ethical misconduct.
- 3) Analyze the basic elements in the conflict and as to what is your responsibility and obligation
- 4) Identify the alternatives and weigh the impact of each alternative on various stakeholders.
- 5) Select the best ethical alternative keeping in consideration all the consequences.

Role of Management Accountants in advising Boards on Corporate Governance

Corporate governance is now a global phenomenon and best practices system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out rules and procedures for making decisions in corporate affairs. It also provides structure through which the company objectives are set, attained and monitored.

The present business environment is becoming more globalized, volatile and risky and less predictable. The inadequacy of the existing governance framework and the emergence of recent corporate scandals, have put additional pressure at the global level to make new legislations on corporate governance for improving transparency and accountability of the company boards, management, auditors, advisors etc. At the same time, it must be understood here that corporate governance practices used in

developed countries cannot be directly applied or implemented in the developing or emerging countries in view of their diversified political, legal, economic, cultural and technological environment and circumstances. The only feasible option for the emerging economies is to develop their own models of corporate governance, instead of borrowing the same model from the developed countries.

A management accountant can play a contributory role in implementing the 'code of corporate governance' that is compulsory to be followed by listed organizations in almost every country, including Pakistan. The Securities and Exchange Commission of Pakistan (SECP) had promulgated a Code of Corporate Governance in the year 2002, applicable on all the listed companies. Thereafter, in 2012 a Revised Code of Corporate Governance was issued by the Commission.

The management accountants have a vital role to play in developing and sustaining an efficient corporate governance mechanism within an organization, in order to help prevent corporate scandals and unethical business practices. They can use integrative information collection, analysis and dissemination processes to effectively direct and oversee the governance process on daily basis as well as monitor risk management decisions and activities of the company. Similarly, management accounting is a significant tool that can be employed by the company boards to deliver effective corporate governance. The management accounting reports and information presented at the Board level can be utilized by the directors in making sufficient and informed deliberations, leading to effective decision making.

The management accountant can present SWOT analysis of the company to the Board which will highlight the company's inner strengths and weaknesses; opportunities available in the market and the threat posed to the company in the short and long span of time. This report would greatly help the board to adjust their priorities, policies and strategies accordingly. Similarly, the management accountants can present reports by using techniques of estimating costs and values and of forecasting cost and revenue behaviors. This report would help the Board to identify the threats and opportunities and their impact on the company, thereby making effective decisions on matters of strategic importance. These and other such management accounting information and tool, presented by the management accountants, can put the Board of directors in a better position to ensure efficient control and monitor performance of the organization.

Ethical Role of Management Accountant as CEO or Board Member

Ethics is an integral part of any organizational culture and it cannot be established through policies alone; it needs role models in institutions. A management accountant can also play a vital role in his capacity as the CEO or Board member of any organization by acting as the ethical role model for other directors, senior executives and other staff. He should be the custodian of ethics in a company by inspiring the right policies, reviewing these policies frequently, communicating them effectively to every level of the organization and ensuring that they are being followed strictly by everyone. He should try to lead by example and be a role model that is worthy of emulation.

Ethical Role of Management Accountant as Professional Practitioner

A management accountant has a significant ethical role as a

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professional practitioner in rendering different services such as consultancy, accountancy and audit to clients. He must maintain the highest level of ethical conduct and be competent in their profession. The clients rely on them to perform their jobs with the highest degree of accuracy and ethical integrity. As such, he is not ethically required to disclose confidential information of his clients to any one and act with integrity in every situation. In case he finds himself in any ethical dilemma, he should follow any of the following courses of action:

- 1) Bring the ethical issue into the notice of immediate boss or company head
- 2) Clarify the issue by using an objective advisor confidentially or consult your own legal counsel
- 3) Use every ethical guideline or option available in the company to find a way out of dilemma
- 4) Resign from the company (after all the ethical options have been exhausted)
- 5) After resignation, notify the nature of ethical conflict (case depending) to other parties

A management accountant in professional practice must demonstrate a responsible ethical conduct as the very foundation of his relationship with his clients, public and the employers rests on trust and confidence. They must ensure that they perform their duties and discharge their obligations in conformity with the ethical values of honesty, integrity, objectivity, confidentiality and due care covered under the professional code of ethics or the ethics education that he had acquired during his association with any professional body. In fact, every professional accountancy institution include in their syllabi, the basic and relevant contents on ethics education that is required to be possessed by a professional accountant. They also develop, revise and refine professional codes of ethics to be followed by their members.

The Framework for International Education Standards for Professional Accountants (2009) of IFAC identifies that the overall objective of accounting education should be to develop competent professional accountants who possess the following:

- (1) Professional Knowledge
- (2) Professional Skills
- (3) Professional Values, Ethics and Attitudes

The International Education Standards (IES) – 4 on Professional Values, Ethics and Attitudes of IAESB recommends that a program of professional accounting education should provide potential professional accountants with a framework of professional values, ethics and attitudes to exercise professional judgment and act in an ethical manner that is in the best interest of society and the profession. In short, it can be said that developing an ethical behavior is part of life-long learning of a professional accountant ■