ETHICS IN FINANCIAL REPORTING AND ORGANIZATIONAL COMMUNICATION

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Abstract: *The subject of ethics have been intensely debated in the economic literature because of its impact on information users' decisions. In the process of preparing financial reports, it is necessary to respect ethical principles for the defense of the public interest. An unethical organizational reporting can cause problems throughout the economy by affecting the confidence of the stakeholders. Respecting ethics in organizational communication, including financial reporting, is often questioned by stakeholders. If investors are confident that the principles of ethics in financial reporting and organizational communication have been respected, they can invest more, thus contributing to the development of the entire economy. The main objective of our paper is to highlight the imperative character of observing ethical principles in financial reporting and organizational communication.*

Keywords: Ethics; Financial reporting;Organizational communication.

JEL Classification Codes: G30, M14, M41.

1. INTRODUCTION

Organizations do not operate in isolation, but rather communicate in various ways with the external environment, and therefore the relationships that are created generate information needs that can be met through communication and reporting.

The starting point for corporate reporting was the need to inform current and potential stakeholders about various aspects of the company’s activity; this reporting has been, and is, constantly evolving in order to meet the information requirements of a broad category of users.

According to a 2016 study by the company Deloitte (2016), the annual reports published by the companies listed on the capital markets represented an important component of the information conveyed by the companies. ”Most stock exchanges have continuous disclosure requirements, to ensure that companies keep investors informed in a timely manner” (Deloitte, 2016). The same study also highlights that technology is expected to change the way investors and other stakeholders access and use corporate information: “the sources of the information about companies are wide and varied, ranging from formal analysis by monitoring bodies such as data aggregators and analysts to informal *chatter* on social media” (Deloitte, 2016).

Quality organizational reporting allows companies to present to potential shareholders and investors the capabilities and abilities that the company’s management has to meet the expectations of the business environment, and there are reports made voluntarily, in addition to the mandatory ones that are based on the regulations in force.

A significant component of organizational communication is financial communication, but currently, alongside financial reporting (which is mandatory), lots of companies also publish non-financial reports, communicating information on concepts such as corporate social responsibility, sustainability, triple bottom line and others. ”Non-financial reports evolved together with the modern financial reporting and are consequences of the industrialization process and advancement of technology” (Fărcaş, 2015).

2. FINANCIAL REPORTING IN TODAY'S CONTEXT

Financial reporting by companies is a legal requirement in many countries, repesenting the communication between organizations and the external environment as far the financial information are concerned that are useful to stakeholders to provide a true image of the financial issues of the company. Financial communication currently holds an important place in economic life, as all organizations have to communicate both to be competitive and to make themselves known (Oancea-Negescu, 2009, p. 13)

According to the Order of the Minister of Public Finance no. 1802/2014 concerning the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements (Section 2.3 *Qualitative characteristics of the financial information*) “for the financial information to be useful, it must be relevant and represent exactly what it is intended to represent. The usefulness of financial information is amplified if they are comparable, verifiable, timely and intelligible.”

Also, its fundamental qualitative characteristics are considered to be relevance and the exact representation; the same accounting regulations state that it is the relevant financial information that has the capacity of helping the users of information in making decisions, and in order for a description to be an accurate representation, it must be complete, neutral and error-free. Financial statements drafted in accordance with widely adopted financial reporting requirements, such as IFRS, are an important component of organizational reports. Financial reporting standards are designed so as to model the information that companies present to capital providers and other stakeholders.

Palea (2013, p. 260) considers that IAS/IFRS can be “a global language with many different dialects”, and yet, by maintaining the quality of applying the standards, “we should not worry about the emergence of local dialects, so long as they are close enough to their mother tongue to be understood without difficulty”.

There are opinions (Baksaas & Stenheim, 2019) that the current financial statements suffer from several communication flaws, including the fact that the present regulation of the financial report does not sufficiently take into consideration the users' needs for information about the entities' ordinary main business model, which affects understanding, clarity and the possibility of comparisons between entities.

Nowadays, companies seek to apply transparent and efficient means of communication of information that concern their financial position and performance, as well as the economic, environmental and social aspects related to the organization's activity. Expert studies consider that non-financial performance measures, such as environmental, social, and governance (ESG) measures, have potentially leading indicators of companies' financial performance (Khan, 2019, p. 103). That study, conducted for US companies covering the 2009-2017 period, found that ESG metrics did predict stock returns.

Moreover, reporting beyond the financial sphere is also promoted by the Global Reporting Initiative (GRI), which provides guidelines on sustainability reporting. According to GRI, sustainability reports should contain information about the sustainability performance of an organization in three main categories: economic, environmental and social.

Recent trends in organizational reporting, however, point towards integrated reporting. Caraiani et al. (2018) uses the Structured Literature Review method to analyze the new concept of integrated reporting, concluding, among other things, that future research might bring to discussion possible links between integrated reporting, governance and integrated thinking.

According to the International Integrated Reporting Council (IIRC), integrated reporting is considered useful for:

- Organizations, because it helps them to understand and communicate their impact and how they create value in a holistic way, thus improving the relationship with all stakeholders;

- Investors and other key stakeholders (e.g., customers, employees, and regulators), as it provides a comprehensive understanding of businesses and their prospects, particularly enabling better informed investment decisions;

- Society**,** because enhanced business and investor performance increases economic prosperity.

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs, aiming at communication about value creation as the next step in the evolution of corporate reporting. The framework created by IIRC is applied in the "United Kingdom, France, Brazil, South Africa, Japan, Malaysia, Australia. The International Integrated Reporting Framework is used to accelerate the adoption of integrated reporting across the world" (https://integratedreporting.org/).

Integrated reporting (IR) is the latest form of organizational reporting, including both financial and sustainability reporting. Kannenberg (2019) analyzes the implications of integrated reporting on corporate performance, and notes that "it is generally advantageous for the firm to reduce information asymmetries between the company and the market through extensive disclosures". At the same time, those companies that publish integrated reports tend to rely on better and more extensive sustainability data. The analysis also highlights the fact that the organizations that apply integrated reporting are mostly "large, profitable companies that operate in highly competitive markets and countries with a strong economy and civil law political system".

3. IMPORTANCE OF ORGANIZATIONAL COMMUNICATION

Traditionally, corporate reporting has been identified as an essential form of communication between organizations and other participants in the business environment.

Any organization exchanges information with other business organizations, customers, suppliers, public administrations, credit institutions, insurance companies, etc., this external communication aimed at facilitating relations with stakeholders.

There are several theories of organizational communication, including the stakeholder perspective, based on the idea that organizations have, by nature, cooperative systems, and therefore they tend to form ties with stakeholders to achieve common objectives (Shumate et al., 2017, p. 5).

Brennan and Merkl-Davies (2018) define corporate communication in a capital market context as "communication between firms and financial stakeholders about the firm's economic events and their effects within and outside the financial statements in the form of words, tables, graphs and pictures. using a variety of genres, channels and media, to discharge accountability or aid decision-making to build strong relationships with capital market participants to ensure their continued financial support."

The management of any company must disseminate information outwards, taking account of the multitude of users having various information needs. Financial statements repesent a segment of organizational communication, and the reliability of financial information is relative. Creative accounting, a tool for modeling information going to external users, aims to change their expectations, with the objective of optimizing the company's image from an accounting point of view. (Oancea-Negescu, 2009, p. 37).

External organizational communication provides information about the company and can be regarded as a marketing tool, presenting a favorable image, while also facilitating cooperation with stakeholders.

4. PROFESSIONAL ETHICS AND FINANCIAL REPORTING

Ethics has been the focus of philosophers' activity since ancient times and, regardless of the definition it has been given over the centuries, it has been closely linked to morality. Today ethics is defined as "the study of what is morally right and wrong, or a set of beliefs about what is morally right and wrong" (Cambridge Dictionary).

Admittedly, companies have, in addition to their economic responsibility, a type of responsibility towards society, but there is no unanimously accepted standpoint as to the importance of each type of responsibility, since each category of stakeholders in general regard things in terms of their own interests. Respecting and complying with the principles of business ethics in general, and accounting ethics in particular, can contribute to economic development by ensuring a climate of trust.

Economic development is a broader concept, which includes the concept of economic growth, with which it is sometimes confused. Thus, economic growth is a concept that generally refers to quantitative changes such as increasing the volume of production or increasing exports, while economic development involves both quantitative and qualitative changes, and cannot be thought of without the technological advance and the increase in population welfare.

This difference between the two concepts is also reflected by the indicators used to assess the level of economic growth and economic development, espectively. While economic growth is measured by indicators such as the level of gross domestic product, or per capita income, economic development is measured by indicators such as life expectancy, poverty rate or infant mortality rate.

Economic growth must naturally contribute to economic development because there are several (always more) resources that can be allocated to improving living conditions, although this is not always the case. In the absence of ethical values, which should be observed, and abetted by, all the participants in the economic and social life, the results of the economic growth can be appropriated by certain corrupt categories, who happen to be in dominant positions in society, or they can be allocated in a manner that does not correspond to the general interest. Economic growth against the background of resource depletion is not sustainable and cannot lead to economic development. Therefore, economic growth is a necessary but not sufficient condition to ensure sustainable economic development.

Money laundering and tax evasion are two crimes that bring great damage to the state budget. In table 1, we present the situation of convictions for offenses of money laundering and tax evasion in Romania, during the last five years.

Table 1. ***The number of persons convicted for money laundering and tax evasion in Romania***

Type of offense	**The court**	**2014**	**2015**	**2016**	**2017**	**2018**
The offense of money laundering (Law 656/2002)	Court of law	0	0	0	0	0
	Tribunal	18	11	23	73	77
	Court of Appeal	0	4	1	16	7
Tax evasion offenses (Law 87/1994, Law 241/2005)	Court of law	364	117	27	17	10
	Tribunal	655	464	683	717	547
	Court of Appeal	6	3	0	6	0

Source: authors' processing based on data published by the Romanian Ministry of Justice, http://www.just.ro/date-statistice/

If an economic actor does not comply with the rules of the game imposed by the legislation, he does not only harm the state budget and the citizens, but also its competitors.

Company reports may sometimes contain distorted information, or conceal some information, and so stakeholders may be seriously harmed as a result of making erroneous decisions based on that information.

In order to avoid such situations, in each country the need arose to define a series of fundamental ethical principles in the accounting profession, which must be respected by all accounting professionals. In a corrupt environment, stakeholders highly value ethical behavior (Velamuri et al, 2017).

The process of globalization of the economy has also affected the accounting profession in several directions, such as:

- the need to standardize accounting has emerged in order to ensure comparability of data for investors and to facilitate foreign investment;
- the need to respect the same principles of ethics in the field of accounting has led to the emergence of numerous regional professional organizations, and also to the emergence of a professional organization including members from all continents;
- professional organizations have developed professional standards, which have been adapted and adopted in most countries of the world.

Following the crashing bankruptcy of Enron in the US, the International Federation of Accountants (IFAC, 2003) prepared a report that highlighted the fact that "integrity, both individual and institutional, is essential if our recommendations are to be effective. Failure to recognize the primacy of integrity has been a major contributor to the financial scandals of recent years". Therefore, respecting the principles of ethics in the accounting profession was one of the main ways to regain public confidence in financial reporting.

In 2018, IFAC published a new *International Code of Ethics for Professional Accountants (including International Independence Standards)*, elaborated by International Ethics Standards Board for Accountants, which states that the principles of ethics in accounting are: "integrity, objectivity, professional competence and due care, confidentiality and professional behavior" (IESBA, 2018).

In the field of accounting and financial reporting, the professional accountant is the main actor who is responsible for the accuracy of the financial statements. Through reporting, the image of the entity is presented to the stakeholders, and observance of ethical principles is essential in order to ensure their confidence in the economic entity and for the progress of the economy.

The progress of the economy means the development of economic entities, the movement of capital and the development of capital markets, yet all of the above cannot be done without the economists operating in each economic branch. It is thus shown that economists serve a more general interest, that of society.

Several actors are involved in shaping a pattern of ethical behavior in society: the educational institutions, the professional bodies, the state, through the laws it adopts, the companies, through their internal regulations, and organizational culture.

Educational institutions ensure the initial training of professionals in all fields, in terms of both professional or scientific training, and ethical conduct. School and education must familiarize future generations with moral values. As Julie Zink points, "ethics is not just how we think and act. It is also about character. Character drives what we do when no one is looking" (Zink, 2019).

Generally speaking, a profession represents a permanent occupation, which someone exercises on the basis of an appropriate qualification. A profession is, as a rule, defined and judged by the knowledge, skills, attitude and ethics of those involved in that profession.

It is but natural that professional bodies should be bound to play a decisive role in regulating the accounting profession since they know best the problems that their members face in the activity they conduct.

It is quite obvious that the state also plays an important role because it must oversee the manner in which the professional body acts aiming at defending the public interest and providing the necessary legislative framework for the development of the accounting profession. The ability of the accounting profession to place the public interest in the first place has the effect of increasing its prestige among the public and changing the way it is viewed by the state's regulatory bodies.

With a view to ensuring a favorable climate in compliance with the principles of business ethics, quite a large number of companies have adopted internal codes of ethics, the role of which is to guide the employees' behaviour.

5. ETHICS IN ORGANIZATIONAL COMMUNICATION

Communication is essential for the sustainable development of an organization, to the same extent as it is important for someone's social life. Ethics in communication gives credibility to the messages conveyed by the organization, and this is an issue which can bring major economic benefits over time by creating a favourable image on the market. An important role rests with the manager who can, through the position s/he occupies and his/her attributions, decisively influence the employees ethical behaviour.

Building an organizational culture based on adherence to ethical principles is no simple task, as teamwork involving actors on various hierarchical levels is required. In order to ensure the success of such endeavour, it is necessary for all employees to understand the main directions of the company's strategy.

6. CONCLUSIONS

Financial and non-financial reporting, regardless of whether it includes mere reporting or integrated reporting, represents the main source of stakeholder information on the status of an economic entity.

Failure to comply with ethical principles in the field of financial reporting may result in generalized tax evasion practices. As a result, lower revenues will be collected in the budget, and the government may decide to increase the level of taxes and fees to make up for the deficit. State revenues are a source of funding for various social programs, and failure to collect such revenues can indirectly affect disadvantaged categories in society. The social role of professional accountants is not limited to these examples, as it covers a multitude of issues with a major impact on society.

The reports on the non-financial sides of the activity of the entity provide all those interested with information on how the entity responds to the current social and environmental demands, within the context of resource depletion and the aggravation of the issues concerning social protection.

Respecting the legislation and ethical principles are essential conditions for ensuring a climate of trust in the society and, in the long term, a sustainable economic development, for the benefit of the whole society.

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