

PROFESSIONAL ETHICS IN ACCOUNTING: DETERMINING FACTORS, ORGANIZATIONAL IMPLICATIONS AND THE ROLE OF CORPORATE GOVERNANCE

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Abstract: Professional ethics represents a core component of the accounting profession, as financial information forms the foundation of economic decisions made by investors, credit institutions, tax authorities, and other stakeholders. This article examines the key factors shaping ethical behavior among accounting professionals, including organizational culture, economic pressures, professional independence, internal control systems, and the broader corporate governance framework. Drawing on relevant literature and international ethical standards, the study highlights the influence of corporate governance on ethical decision-making through compliance policies, risk management mechanisms, and leadership tone ('tone at the top'). The article further discusses common ethical dilemmas encountered in practice, such as earnings management, conflicts of interest, and pressures exerted on auditors. The conclusions emphasize the necessity of strengthening ethical culture, ensuring continuous professional training, and reinforcing transparent reporting mechanisms to reduce fraud risks and enhance stakeholder confidence.

Key words: accounting profession, professional ethics, organization corporate governance

JEL Classification Codes: G000

1. INTRODUCTION

In contemporary economic systems, the accounting profession occupies a crucial position in facilitating informed decision-making, enabling resource allocation, and supporting the functions of capital markets. The legitimacy of this profession is built on the assumption that financial information prepared and reported by accountants is accurate, objective, and free from manipulation. Yet this assumption is not merely technical; it is profoundly ethical. Accounting is fundamentally an activity of representation, and the integrity of this representation depends on the ethical conduct of those who produce and validate financial data.

Historical and contemporary corporate scandals have demonstrated that ethical misconduct in accounting has consequences far beyond individual organizations. The collapses of Enron, WorldCom, Wirecard, and Carillion have shown how unethical behaviors can destroy investor value, destabilize financial markets, provoke regulatory crises, and erode public trust in economic institutions. These events sparked intense debate about the adequacy of existing ethical frameworks, the effectiveness of corporate governance, and the structural vulnerabilities that allow unethical behavior to thrive.



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In the context of increasing digitalization, global competition, and complex financial instruments, accountants face unprecedented ethical dilemmas. These dilemmas often arise not only from overt conflicts of interest but also from subtle pressures, implicit expectations, and ambiguous interpretations of financial standards. As a result, understanding the determinants of ethical behavior in accounting requires a multifaceted approach that integrates individual, organizational, and systemic dimensions.

This article proposes such an integrative approach. It begins by reviewing theoretical frameworks related to ethics in accounting, then examines the main determinants influencing accountant behavior. The analysis moves beyond individual responsibility to explore organizational structures, cultural influences, and governance arrangements that shape ethical conduct. Through a critical analysis of governance failures and lessons drawn from major corporate scandals, the article identifies recurrent patterns that contribute to ethical breakdowns. Ultimately, the study formulates recommendations aimed at strengthening ethical practices, reinforcing professional integrity, and enhancing governance systems to safeguard the credibility of financial reporting.

This paper adopts a purely theoretical and conceptual approach. It does not rely on empirical data or statistical analysis, but rather on an integrative review and critical interpretation of existing literature, international ethical standards, and emblematic corporate cases. The purpose of the study is to develop a coherent conceptual framework that explains how ethical behavior in accounting emerges from the interaction between individual morality, organizational culture, and corporate governance mechanisms.



Figure no.1 Ethics

Source: created by the author

Figure 1 illustrates the cognitive dimension of professional ethics, emphasizing the role of individual moral reasoning in accounting decision-making.

2. THEORETICAL PERSPECTIVES ON ETHICS IN THE ACCOUNTING PROFESSION

Ethics in accounting is anchored in normative principles, philosophical traditions, and professional codes that collectively regulate behavior. While accounting standards specify how financial transactions should be recorded and reported, ethical frameworks guide how

professionals should act when standards are unclear, when judgments are required, or when competing interests collide.

Central to ethical regulation in the accounting profession is the International Ethics Standards Board for Accountants (IESBA) Code, which articulates five fundamental principles expected of all accounting professionals: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. These principles form a universal ethical baseline applicable across jurisdictions, cultures, and professional roles.

The principle of integrity requires accountants to be honest and straightforward in all professional activities. Integrity is not merely the absence of dishonesty; it also involves the willingness to report truthfully even when doing so may conflict with personal or organizational interests. Objectivity requires accountants to avoid decisions affected by bias, conflicts of interest, or undue influence. Professional competence emphasizes the necessity of maintaining up-to-date knowledge and skills to perform tasks responsibly. Confidentiality requires discretion regarding information gained through professional work, except when disclosure is mandated by law or necessary to prevent harm. Professional behavior encapsulates compliance with laws, regulations, and the reputation of the profession.

Beyond these principles, theoretical models help describe how accountants make ethical decisions in practice. Deontological frameworks focus on duties and rules, suggesting that ethical behavior reflects adherence to established principles regardless of consequences. In contrast, consequentialist theories—such as utilitarianism—evaluate actions based on their outcomes and the benefits or harms produced for stakeholders. Virtue ethics advances the idea that ethical behavior is rooted in character, proposing that honesty, responsibility, and fairness should guide professional actions. Psychological models highlight the cognitive stages involved in ethical decision-making, suggesting that moral sensitivity, reasoning, motivation, and implementation are necessary components of ethical conduct.

These theoretical perspectives illustrate that ethical behavior is neither automatic nor guaranteed by professional standards alone. Instead, it results from complex interactions between personal values, contextual pressures, organizational expectations, and institutional structures. The following sections explore these determinants in detail.

Professional ethics in accounting: determining factors, organizational implications, and the role of corporate governance.

Beyond synthesizing existing ethical theories, this paper advances the literature by proposing an integrative interpretative lens that connects individual ethical reasoning with organizational and governance-level determinants. Unlike prior studies that examine ethical behavior primarily at either the individual or institutional level, this article conceptualizes professional ethics in accounting as a multi-layered construct shaped simultaneously by moral cognition, organizational culture, and governance architecture. This integrative perspective contributes theoretically by explaining why ethical failures persist even in highly regulated environments and why formal compliance mechanisms alone are insufficient to ensure ethical conduct.

3. DETERMINANTS OF ETHICAL BEHAVIOR IN ACCOUNTING

Ethical behavior in accounting emerges from interconnected dimensions involving individual, organizational, and systemic influences. Understanding these determinants is essential for identifying vulnerabilities and designing interventions that promote ethical conduct.

A critical determinant is organizational culture, which shapes employee perceptions of acceptable behavior. Organizational culture refers to the shared values, beliefs, and norms that influence how individuals behave within an institution. When an organization cultivates a culture centered on integrity, transparency, and accountability, employees are more likely to behave

ethically. Conversely, when the organizational environment prioritizes profit maximization, aggressive performance targets, or hierarchical pressure, ethical standards may erode. The influence of organizational culture is particularly evident in the concept of the “tone at the top,” which refers to the ethical attitude and behavior demonstrated by senior leadership. Leadership communicates ethical expectations not only through formal policies but also through daily decisions, communication styles, and responses to misconduct. When leaders embody ethical principles, employees perceive ethical conduct as integral to organizational identity. When ethical breaches are tolerated or ignored, employees may rationalize unethical behavior as necessary or even expected.

Economic and managerial pressures also play a significant role in shaping ethical behavior. Accountants often operate in environments where financial targets, earnings expectations, and performance metrics create tension between ethical principles and organizational demands. For example, pressure to meet quarterly earnings projections may lead managers to pressure accountants into manipulating accruals or applying aggressive interpretation of accounting standards. These pressures become particularly acute in industries where investor expectations, market competition, or executive compensation schemes depend on financial performance indicators. In such contexts, ethical behavior may be compromised not because individuals lack moral values but because organizational incentives reward outcomes rather than integrity.

Professional competence and ethical training form additional determinants. Accountants with a strong grasp of financial standards and ethical frameworks are more capable of identifying ethical dilemmas and resisting inappropriate pressures. Ethical reasoning is not innate; it develops through education, reflection, and experience. As the accounting profession faces evolving challenges—including digital technologies, data-driven decision-making, and complex financial products—continuous professional development becomes essential. Ethical education enables accountants to interpret standards responsibly, anticipate ethical risks, and navigate ambiguous situations with professional judgment.

Internal control systems represent a structural determinant that influences ethical behavior by constraining opportunities for misconduct. Segregation of duties, authorization procedures, internal audits, and fraud detection mechanisms collectively reduce the likelihood of unethical behavior. Weak internal controls create environments in which fraud, manipulation, or concealment can occur undetected. Conversely, robust systems increase transparency and support accountability, reinforcing ethical norms.

Finally, personal values and moral reasoning contribute significantly to ethical behavior. Individuals interpret ethical principles through the lens of their experiences, cultural background, education, and personality. Accountants with strong internalized values—such as honesty, fairness, and responsibility—are more likely to resist unethical pressures. However, individual moral strength may be insufficient when organizational systems implicitly reward unethical conduct or when governance structures fail to enforce accountability.

4. CORPORATE GOVERNANCE AS A FRAMEWORK FOR ETHICAL BEHAVIOR

Corporate governance provides the institutional framework through which organizations are directed, managed, and monitored. Effective governance reduces the likelihood of unethical behavior by establishing accountability mechanisms, clarifying responsibilities, and aligning organizational objectives with stakeholder interests. Governance serves as a bridge between ethical principles and the practical realities of organizational life.

The board of directors plays a central role in shaping ethical conduct. Boards oversee strategic decision-making, supervise management, establish ethical policies, and ensure compliance with laws and standards. Independent board members contribute objectivity and

provide counterbalance to executive power, reducing the potential for conflicts of interest. Boards that prioritize ethical considerations integrate integrity into organizational strategy, making ethical behavior a core value rather than a compliance obligation.

Audit committees, as specialized governance bodies, reinforce financial integrity by overseeing the financial reporting process, supervising internal and external auditors, and evaluating the effectiveness of internal controls. Audit committees with financial expertise and independence can detect irregularities, question questionable accounting practices, and ensure that financial statements reflect economic reality. Their role is particularly important in preventing fraudulent reporting and ensuring transparency.

Whistleblowing systems constitute another essential governance mechanism. Employees often observe unethical behavior before it becomes visible to senior leadership or external auditors. Effective whistleblowing frameworks provide safe channels for reporting misconduct while protecting employees from retaliation. Organizations with strong whistleblower protections identify issues earlier, respond more effectively, and cultivate cultures that value honesty and accountability.

Corporate governance, however, is not solely a matter of formal structures. Its effectiveness depends on the integrity, competence, and ethical commitment of those who occupy governance roles. Governance failures often stem from complacency, insufficient oversight, conflicts of interest, or misaligned incentives. Strengthening governance requires continuous adaptation, vigilant oversight, and uncompromising commitment to ethical principles.



Figure no. 2. Corporate governance

Source: created by the author

Figure 2 illustrates the interaction between corporate governance mechanisms—such as board oversight, audit committees, and internal controls—and ethical behavior in accounting practice.

5. THE IMPACT OF UNETHICAL BEHAVIOR IN ACCOUNTING

Unethical behavior in accounting generates profound financial, legal, and reputational consequences for organizations, stakeholders, and society at large. Financial consequences arise when manipulated financial statements mislead investors, distort market signals, and contribute

to misallocation of resources. Investors rely on accurate financial information to assess performance, evaluate risk, and make investment decisions. When financial statements are compromised, markets lose efficiency, and capital allocation becomes distorted.

Legal consequences result from violations of laws, regulations, or professional standards. Regulatory bodies may impose penalties, revoke licenses, or pursue criminal prosecution in cases of fraud or deliberate misrepresentation. Such consequences aim not only to punish misconduct but also to deter future unethical behavior.

Reputational consequences are particularly severe and often long-lasting. Organizations implicated in unethical accounting practices face loss of investor confidence, difficulty accessing capital, decreased market value, and long-term damage to their brand. Stakeholders may withdraw support, clients may discontinue relationships, and talented employees may avoid organizations perceived as unethical. For individual accountants, involvement in unethical behavior can result in loss of professional credibility and permanent damage to career prospects.

At a societal level, unethical accounting practices contribute to erosion of trust in economic institutions and regulatory systems. When the public perceives financial markets as vulnerable to manipulation, confidence in the broader economy weakens. Thus, ethical integrity is not only a professional virtue but also a prerequisite for economic stability.

6. INSIGHTS FROM CORPORATE SCANDALS

Corporate scandals provide critical insights into how ethical and governance failures manifest in practice. The case of Enron exposed how complex financial structures, such as off-balance sheet entities, were used to conceal debt and inflate performance. The failure of external auditors to maintain independence and challenge questionable practices contributed significantly to the scandal. This case highlighted the dangers of conflicts of interest, weak oversight, and excessive reliance on market valuations.

The collapse of WorldCom revealed how internal manipulation of accounting records—particularly through improper capitalization of expenses—could continue undetected in environments with inadequate internal controls and ineffective governance. WorldCom demonstrated that fraudulent practices could be perpetrated by senior management when governance structures fail to enforce accountability.

Wirecard's scandal illustrated that fraudulent practices can persist even in highly regulated environments. Wirecard's overstatement of cash balances and revenues reflected not only internal dishonesty but also failures in audit procedures, regulatory oversight, and market supervision. The scandal emphasized the need for stronger audit scrutiny, enhanced regulatory cooperation, and more robust verification of financial information.

Carillion's collapse underscored the risks associated with aggressive revenue recognition, ineffective risk management, and governance inertia. The company's failure raised concerns about the adequacy of oversight provided by boards, auditors, and regulators, as well as the systemic vulnerabilities created by overly optimistic financial reporting.

These scandals share common themes: leadership failures, weak governance, compromised auditor independence, inadequate internal controls, and organizational cultures tolerant of unethical behavior. They demonstrate that ethical failures seldom arise from isolated misconduct; rather, they result from systemic deficiencies and cultural environments that fail to prioritize integrity.

From a theoretical perspective, these corporate scandals do not represent isolated ethical failures, but rather systemic breakdowns in governance and ethical control. In the case of Enron, the predominance of utilitarian reasoning oriented toward short-term financial gains displaced deontological obligations related to transparency and truthfulness. Similarly, the Wirecard

scandal reveals the limitations of formal compliance systems when ethical culture and professional skepticism are weak. These cases support the argument advanced by virtue ethics, according to which ethical behavior cannot be ensured solely through rules and controls, but requires the cultivation of moral character and ethical leadership. Furthermore, they confirm governance theory predictions that ineffective oversight, compromised auditor independence, and misaligned incentives create structural conditions conducive to unethical accounting practices.



Figure no. 3 ESG

Source: created by the author

Figure 3 conceptualizes ethical behavior as the outcome of the dynamic interaction between governance structures, internal control systems, and individual professional judgment.

7. CONCLUSIONS AND POLICY RECOMMENDATIONS

This article has explored the multifaceted determinants of ethical behavior in accounting, emphasizing the interaction between individual moral reasoning, organizational culture, internal control systems, and broader governance structures. The analysis demonstrates that ethical integrity arises not from rules alone but from a coordinated alignment of values, systems, incentives, and oversight mechanisms. Cultivating ethical behavior requires sustained commitment across all levels of the profession.

Organizations must foster ethical cultures by promoting transparency, responsibility, and accountability. Leadership plays a decisive role in shaping ethical norms, and senior management must consistently demonstrate integrity in their decisions and communications. Ethical training should be integrated into professional development programs, enabling accountants to navigate dilemmas, interpret standards responsibly, and anticipate ethical risks. Internal control systems must be strengthened to ensure accuracy and detect irregularities, while governance bodies—particularly audit committees—should be empowered to exercise independent oversight.

Whistleblower protections should be robust, ensuring that employees can report misconduct without fear of retaliation. At the regulatory level, enforcement mechanisms must be rigorous, consistent, and adaptable to emerging risks, particularly those associated with digital technologies and complex financial innovations.

Future research should explore how artificial intelligence, automation, and algorithmic decision-making influence ethical behavior in accounting. As digital tools increasingly shape financial reporting processes, understanding their ethical implications becomes essential for maintaining integrity and transparency.

By integrating ethical education, organizational culture, and governance reforms, the accounting profession can strengthen its contribution to economic stability and public trust. Ethical behavior is not merely a professional requirement; it is a cornerstone of sustainable and responsible economic development.

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