Self interested managers more likely to manipulate the books: study

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(Phys.org) -- Accounting manipulation occurs more often in firms that have a work culture that is centered on self-interest, according to a joint University of Melbourne and Tilburg University study.

The study, which analysed 550 senior managers in The Netherlands, found that these manipulations included everything from deferring needed expenditure or accelerating sales to shifting funds between accounts to avoid budget overruns.

Additionally the study found that where the work culture is one focused 'on self' Dutch firms use expensive performance incentive work contracts in order to encourage its employees to consider the impact of their actions on shareholders, investors and colleagues.

The study was undertaken by Professor Margaret Abernethy, the Sir Douglas Copland Chair of Commerce in the Faculty of Business and Economics at the University of Melbourne and Professors Jan Bouwens and Laurence van Lent of the CentER and Department of Accountancy at Tilburg University.

Professor Abernethy said changing the ethical work climate of a firm was difficult, but "…the type of performance incentive contract could mitigate some of the adverse consequences associated with a focus on self".

"This research is a unique analysis as it presents information from the very coalface of this issue and from senior managers who engage with these issues on a daily basis. The results clearly highlight that ethical values play an important role in the daily practice of a firm. Our study demonstrates that the ethical work climate of a firm has a strong relationship to incidences of accounting manipulation and to the types of incentive contracts that firms decide to use."

Professor Bouwens said that the background of the managers plays a significant role. "We found that, with all other conditions being equal, managers with a certified-accountant degree background are less likely to engage in manipulative activities than their colleagues. This tells us that with education and training we can significantly affect the likelihood of people resorting to unethical behaviour. During these programs accountants learn that it is always in their best interest not to cross the line"

Professor Abernethy said unethical business behaviour had been under the microscope for more than 10 years, but that changes still needed to be made. "The creation of the Sabranes Oxley Act in 2002 and its ripple effect across the world led to a stronger attempt to tackle unethical behaviour within companies. Firms are now required to disclose if they have adopted a code of ethics and stock exchanges across the globe require companies to disclose codes of ethics for all directors and employees of firms.

"However the simple codification of ethical behaviour through legislation does not ensure that ethical transgressions will not occur and increasingly firms must adopt mechanisms that embed ethical behaviour into the very 'fibre' of the firm."

The study has implications for Boards of Management concerned with ensuring that the firm embeds cultural norms that encourage desired ethical behaviors from top management right through to individuals at the lowest level. “This is important because we know the tone at the top influences the actions of individuals within the firm,” Professor Abernethy said.

Provided by University of Melbourne