The Role of the Ethical Responsibility of Management in Promoting Financial Disclosure

Ali Khalaf Gatea[1], Zina Hamza Gali[2], Amal Essa Abdullah[3]
{ali.khalaf83@stu.edu.iq[1], zena992@stu.edu.iq[2], amal.esaa34@stu.edu.iq[3]}

Southern Technical University Technical Institute / Nasiriya, Iraq[1,2,3]

Abstract. The research deals with the importance of the moral responsibility of management in disclosing financial and non-financial data, and in line with the reality of the company's economic activity in light of the global crisis that the economy is going through, as a result of the (Coved-19) pandemic, which caused the suspension of many production and service activities, and the role of Administration in providing stakeholders with credible and reliable data for decision-making, the research found the importance of administrative ethics with its dimensions (Credibility, Fairness, Objectivity, Responsibility) on disclosure in the financial statements, and the research recommends the need to tighten kinship on the management's actions regarding the nature of the information it discloses There is no conflict of interest with the beneficiaries.

Keywords: Administrative ethics, disclosure, financial statements.

1 Introduction

Ethics is the basis for building societies as it is essential for political, social, and economic decision-making. And talking about management ethics takes multiple directions and opinions commensurate with the culture of peoples, the way of their civilization, and their political, economic, and social identity, and the existence of ethics is not limited to a society without other societies. From an accounting point of view, management ethics is related to the extent to which the company responds to the needs expressed by stakeholders for information relevant to decision-making, which reflects the reality of the company's economic and financial activity.
Administrative ethics refers to ethical standards, which distinguish between right and wrong, or specific principles that benefit society because of the management's conduct of business [3]. While [8] defines it as the use of religious, political, or social teachings to create criteria by which the quality of public administration, in general, can be judged, and these criteria include (honesty, responsiveness, efficiency, effectiveness, merit).
Research on ethics, in general, has focused on the relationship between service providers and their customers, as there is a need for the service sector to have a developed ethical sense, given their dealings with various segments of society [2]. In the field of business, managers in some companies may resort to behaviours that violate the ethics of administrative work, to achieve their interests, such as manipulating financial statements and beautifying income, and as a result, harming external parties benefiting from the financial statements. In this field and response to corporate scandals, the US Congress passed the SOX Act to help prevent loopholes in internal

IMDC-IST 2021, September 07-09, Sakarya, Turkey

DOI 10.4108/eai.7-9-2021.2314889

control, and one of its results was to clarify the responsibility of senior management for the company's financial statements, as CEOs and financial officials must certify, that Financial statements and fair disclosure of the company's operating results and financial condition, in addition; The company must maintain an adequate system, of internal controls, to protect the company's assets and ensure the accuracy of financial reports. The second consequence of the SOX Act is that companies now pay more attention to the formation of the audit committee of the board of directors, as the members of the Board of Directors must consist of Management is entirely independent (i.e., non-employees), and must include at least one financial expert. As a result, the law increases penalties for misconduct and guides management accountants [12].

2 The Concept of Disclosure in the Financial Statements

The financial statements are a mirror for every business company as they represent a mediator between the company and other parties through the information provided on the company's financial position and the success of its business, and these data are primarily used by external parties, which make various decisions based on this information, and to be able to make decisions, the information contained in financial statements must be accurate and reliable, however, most companies nowadays are increasingly resorting to smoothing financial statements to present a more attractive picture to the largest possible number of investors [5]. Transparently presenting accounting information to stakeholders, helps them make informed financial decisions, and that the conceptual framework of financial accounting, clarifies that the financial objective of the data is "to provide accurate information about the financial statements and that the result of the performance helps users in making economic decisions, so any event Likely to affect the company's current financial position or future risks, should be reflected in the financial statements [4], [11] states the requirements of IFRS 8 that the disclosure of segment information should include the following:

1. That the disclosure should include at least the following: revenue from external customers and transactions with other operating segments, interest income and interest expense, depreciation and amortization, "exceptional" items, income or expense tax, other material non-monetary items.
2. Types of products and services offered by the company.
3. Profit and loss measure for each sector.
4. The measure of liabilities for each segment is to be reported.
5. Total assets.
6. Profit or loss adjustments.

As for [5], [7] it lists the determinants of the Financial Accounting Standards Board for the qualitative characteristics of accounting information that characterize information more useful for decision-making purposes, which include:
Relevancy: For the information to be relevant, it must have an impact on the decisions used, for this information must also help the user to predict the future and confirm or correct past expectations through performance feedback.

1. **Reliability:** that is, the information is free from errors and biases, and it must accurately represent the company's events and activities.
2. **Comparison:** The information that is measured and reported to different institutions is comparable, as the comparison feature should allow users to identify aspects of

compatibility and fundamental differences in economic phenomena, if these aspects are not hidden using similar accounting methods.

3. **Consistency:** The principle of consistency means that the institution applies the same accounting standard for the same accounting events, from one accounting period to another. This does not mean that the company cannot move to another method, and the transition is made if the new method is better than the old one.
4. **Completeness:** Completeness means that the information includes important elements related to the events and activities
5. Timeliness: Information must be prepared in time before deciding to be useful to it.
6. **Verifiable:** This means that the same information is obtained by independent individuals.
7. **Accessible:** Refers to providing information to users when they need it appropriately.

2.1 Previous Studies

1. A study (Mukhlasin & Nur,2018): "Internal Control Disclosure Ethics Disclosure and Earnings Management as Signal to Detect Fraudulent Financial Reporting" study aims to prove the impact of the management's commitment to the company's internal controls, on the accuracy of financial reports. It also studies the relationship between management's intentions and interest in its interests, and fraudulent financial reports, by analysing the non-financial data of companies listed on the Indonesia Stock Exchange, and the most important conclusions reached, the possibility of improving the quality of information, By following the voluntary disclosure method, that is, disclosing internal control and management ethics, as it was found that following voluntary disclosure significantly reduces the preparation of fraudulent reports.
2. A study (Kim & Jo,2008): "Ethics and Disclosure: A Study of the Financial Performance of Firms in Seasoned Equity Offerings Market" study aims to know the role of administrative ethics in preventing profit manipulation and beautifying income, to obtain better performance in the long run, and its impact on financial disclosure, and damage to the interests of shareholders. The financial statements and consequently the company's lost gradually.
3. A study (Mansour & Salem,2017):" Importance of Management and Administrative Ethics on Corporate Success, and Sustainability" study aims to show the importance of the management's commitment to administrative ethics, in sustainability, success, and continuous growth of companies, in the Arab world.

3 Research Methodology

1. **Research problem:** Disclosure, in general, is one of the most important matters for stakeholders because it represents a graph to know the business results of the economic unit and to enhance the effectiveness of investment decision-making and future forecasting, and the management practices in disclosing financial statements are one of the factors affecting the reliability and credibility of those data Accordingly, the research problem discusses the extent of the administration's commitment to ethical standards in disclosing financial statements, exercising its influence, and how to control over them.

2. **The importance of the research:** the importance of knowing the standards that govern administrative ethics and their role in disclosing information with transparency and credibility in the financial statements, the aim of which is to protect the wealth of shareholders and investors because some senior management disclose information that achieves their interests, and this is reflected negatively on the market value for the company.
3. **Research objectives:** The research aims to present the theoretical framework of the concept of management ethics and the standards that govern the ethical practices of senior management in financial and non-financial disclosure, and the relationship between administrative ethics in accounting disclosure and the value of the company. Considering the awareness of management ethics standards and their impact on financial and non-financial disclosure.
4. **Research hypothesis:** The research is based on the main hypothesis that states: " There is a significant statistically significant relationship between management's commitment to ethical standards and disclosure in the financial statements" Sub-hypotheses are derived from it:

H1: There is a significant relationship with statistical significance between the credibility of management and disclosure in the financial statements.
H2: There is a significant relationship with statistical significance between the fairness of management and disclosure in the financial statements.
H3: There is a significant relationship with statistical significance between the objectivity of management and disclosure in the financial statements.
H4: There is a significant statistically significant relationship between management responsibility and disclosure in the financial statements.

3.1 Data Collection and Analysis

For data collection, a questionnaire was designed based on the principles and standards of administrative ethical responsibility issued by the Council of Administrative Accountants, which contained four main axes including (credibility, justice, objectivity, responsibility), which was distributed to a selected group of employees in Iraqi companies listed in The Iraqi Stock Exchange, as well as the beneficiaries of the financial statements published by those degrees, and to measure the relationship between the proposed axes, the results were subjected to a statistical analysis based on the outputs of the (SPSS) program and the impact and correlation it contains significant significance at the degree of freedom (0.05), which was as follows:

Table 1. Case Processing Summary.

		N	%
Cases	Valid	76	100.0
	Excluded[a]	0	.0
	Total	76	100.0

Listwise deletion based on all variables in the procedure.

Table 1 shows the SPSS program entries, which were 100% correct.

Table 2. Reliability Statistics.

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.829	.841	19

Table 2 shows the reliability coefficient of the questionnaire items is .829, which is an excellent percentage for measuring the validity of the questions that were included within the questionnaire.

Table 3. Item Statistics.

	Mean	Std. Deviation	N
Credibility	3.8789	.33796	76
Fairness	3.8421	.35525	76
Objectivity	3.9474	.14373	76
Responsibility	3.8263	.28160	76

Table 3 shows the aggregated data for each variable, the arithmetic mean, and the number of valid entries.

Table 4. ANOVA.

		Sum of Squares	Df	Mean Square	F	Sig
Between People		11.789	75	.157		
Within People	Between Items	.661	3	.220	3.609	.014
	Residual	13.739	225	.061		
	Total	14.400	228	.063		
Total		26.189	303	.086		

Grand Mean = 3.8737

It is clear from Table 4 that the value of P. Value is 0.014, which is less than the 5% level of significance, and therefore we accept the program's analytical outputs because there are significant differences between the research variables.

Table 5. One-Sample Kolmogorov-Smirnov Test.

		credibility	Fairness	Objectivity	Responsibility
N		76	76	76	76
Normal Parameters[a,b]	Mean	3.8789	3.8421	3.9474	3.8263
	Std. Deviation	.33796	.35525	.14373	.28160
Most Extreme Differences	Absolute	.377	.328	.511	.363
	Positive	.360	.328	.357	.269

Negative	-.377-	-.321-	-.511-	-.363-
Test Statistic	.377	.328	.511	.363
Asymp. Sig. (2-tailed)	.000[c]	.000[c]	.000[c]	.000[c]

Test distribution is Normal. b. Calculated from data. c. Lilliefors Significance Correction.
Table 5 reflects the normal distribution of the drawn research sample based on the answers obtained according to the (Kolmogorov-Smirnov) test to test the moderation of the parameter test in proportion to the researcher's hypothesis, as we find that the P. Value is equal to 0.000 which is less than the level of significance 5%, and therefore we accept Statistical analysis results.

Table 6. One-Sample Test.

	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
credibility	100.059	75	.000	3.87895	3.8017	3.9562
Fairness	94.285	75	.000	3.84211	3.7609	3.9233
objectivity	239.416	75	.000	3.94737	3.9145	3.9802
responsibility	118.456	75	.000	3.82632	3.7620	3.8907

It is clear from Table 6 that the value of P. Value is 0.000, which is less than the level of significance 5%. Therefore, we accept the research hypotheses that there is an impact of management ethics with its variables (credibility, fairness, objectivity, responsibility.

Table 7. Correlations.

		credibility	Fairness	objectivity	Responsibility
Credibility	Pearson Correlation	1	.931**	.109	.012
	Sig. (2-tailed)		.000	.350	.921
	N	76	76	76	76
Fairness	Pearson Correlation	.931**	1	.086	.127
	Sig. (2-tailed)	.000		.461	.273
	N	76	76	76	76
objectivity	Pearson Correlation	.109	.086	1	.219
	Sig. (2-tailed)	.350	.461		.057
	N	76	76	76	76
responsibility	Pearson Correlation	.012	.127	.219	1

	Sig. (2-tailed)	.921	.273	.057	
	N	76	76	76	76

**. Correlation is significant at the 0.01 level (2-tailed).

Table 7 represents the correlation coefficient between the research variables, which is evident through the value obtained at the degree of freedom of 0.05.

Table 8. Summary Statistics questioners.

Details	N	Mean	Std. Deviation
The management adopts the strategic directions and main objectives of the company and supervises their implementation	76	3.9474	.32227
Communicate information fairly and objectively	76	3.8158	.45345
Develop a written policy that regulates the relationship with stakeholders to protect their rights	76	3.9737	.16114
Management refrain from drifting in any ethical behaviour that reduces the performance of the company	76	4.0000	.00000
The management shall refrain from engaging in or supporting any activity that would tarnish the reputation of the profession	76	3.9211	.27145
Contribute to the formation of a positive ethical culture and commitment to the integrity of the profession leads to the disclosure of objective and transparent information	76	3.8684	.47165
The commitment of the members of the Board of Directors to avoid conflict of interests with related parties.	76	3.9737	.16114
Maintain an appropriate level of professional leadership and experience by enhancing knowledge and skills	76	3.9211	.35640
Perform professional duties by regulations and laws related to professional standards.	76	3.6053	.71328
Provide accurate, clear, and concise information and recommendations to investors to support their decisions and identify future risks	76	3.8684	.41125
Maintain confidentiality of information except when disclosure is authorized or legally required	76	3.7632	.58580
Providing the necessary documents to shareholders to assist them in voting on decisions.	76	3.9474	.32227
Refrain from using confidential information for unethical or illegal advantages	76	3.9737	.16114
Publication of the Board of Directors' report and the auditor's report	76	3.6842	.57063
Provide all relevant information that is expected to affect a user's understanding of the reports, analyses, or recommendations	76	3.9211	.35640

Reporting by management of any delay or lack of information, processing, or internal controls.	76	3.8947	.38571
The administration sets electronic systems through which the company's financial and non-financial information is disclosed	76	3.8158	.45345
The company's management appoints an official to manage the company's disclosure methods and respond to investors	76	3.9211	.35640
The company's management discloses any proposed change in the financing or capital structure	76	3.8158	.50887
Report any restrictions that affect the success of the company's financial performance	76	3.8421	.49133
credibility	76	3.8789	.33796
Fairness	76	3.8421	.35525
objectivity	76	3.9474	.14373
responsibility	76	3.8263	.28160
Valid N (Listwise)	76		

4 Conclusion and Recommendations

In this article, we address the issues related to the ethical responsibility of management in its dimensions (Credibility, Fairness, Objectivity, Responsibility). And its relationship to disclosure in financial reports, from the point of view of the beneficiaries and stakeholders. and whether disclosure decisions are free from unethical manipulation of income or earnings smoothing. It was found that disclosure is directly related to the ethical responsibility of management. This supports the research hypothesis, which states that there is a significant relationship with statistical significance between the management's commitment to ethical standards and disclosure in the financial statements. According to the following:

1. There is a positive correlation with a moral significance between the credibility of the administration and the accounting disclosure in terms of table 6 at the level of morale less than (5%).
2. There is a positive correlation with a moral significance between the fairness of the administration and the accounting disclosure in terms of table 6 at the level of morality less than (5%).
3. There is a positive correlation with a moral significance between the objectivity of management and the accounting disclosure in terms of table 6 at the level of morale less than (5%).
4. There is a positive correlation with a moral significance between management responsibility and accounting disclosure in terms of table 6 at the level of morale less than (5%).
5. The administration's tendency to follow behaviours that violate work ethics, which may significantly affect the quality of financial information and, as a result, harm the related parties who benefit from the reports issued by the company.
6. The management's commitment to ethical standards leads to the disclosure of accurate and consistent information, and this leads to the company's long-term continuity and sustainability.

There are some recommendations as following:

1. The administration should be keen to disclose information accurately without any bias or temptation for their interests.
2. The higher authorities in the state should tighten oversight over the management of companies to comply with the standards of administrative ethics.
3. The necessity of stressing kinship on the management’s actions regarding the nature of the information it discloses and the absence of a conflict of interest with the beneficiaries.
4. Spreading cultural awareness to investors to find out or detect any manipulation in the company's financial statements and thus take a correct decision.

References

[1] Aly M., Athmar S., (2017), Importance of Management and Administrative Ethics on Corporate Success, and Sustainability" International Journal for Innovation Education and Research, Vol.5 No.3.

[2] Brudney, J. L., Martinez, J. M., (2010), Teaching administrative ethics in nonprofit management: Recommendations to improve degrees, certificates, and concentration programs. Journal of Public Affairs Education, 16(2), 181-206.

[3] Chandio, A. R., Iqbal A. B., S. A., Ali, M., & Gadhi, G. N., (2019), administrative ethics with special reference to islam. GSJ, 7(7).

[4] Elliott B. , Elliott J., Financial Accounting and Reporting", 16 ed, Pearson Education Limited, 2013.

[5] Hachem B., Sujud H., (2019), Effect of the Quality of the Accounting Information System Outputs on Customer Satisfaction in Lebanese Commercial Banks, Issue 176.

[6] Kim, Y. & Jo, H., (2008). Ethics and disclosure: A study of the financial performance of firms in the seasoned equity offerings market. Journal of Business Ethics, 80(4), 855-878.

[7] Kieso D.E., Weygandt Jerry J., Warfield T. , Intermediate Accounting, 16ed, John Wiley & Sons, Inc. 2016

[8] Marume, S. B. M , Chikasha A. S., (2016), Administrative Ethics, International Journal of Business and Management Invention, Vol. 5 Issue 8.

[9] Mukhlasin M. , Nur A., (2018), Internal Control Disclosure, Ethics Disclosure, and Earnings Management as Signal to Detect Fraudulent Financial Reporting" Nur Anissa Vol. 5, No.6.

[10] Remenarić, B., Kenfelja, I., & Mijoč, I. (2018). Creative accounting-motives, techniques and possibilities of prevention. Ekonomski vjesnik, 31(1), 193-199.

[11] Spiceland D. , Nelson M., Thomas W. ,Intermediate Accounting, 8ed, Published by McGraw-Hill Education,2018.

[12] Weygandt J., Wisconsin M. , Kieso D. E., Accounting principal"13 ed, John Wiley & Sons, Inc, 2018.

[13] Mansour, A., & Alsalem, A. (2017). Importance of Management and Administrative Ethics on Corporate Success and Sustainability.