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Original Paper

Culture and Ethics in Financial Reporting

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Abstract

In recent years, financial reporting as a tool for communicating income and finances to the outside world has been the subject of numerous studies. The dissemination of this document impacts various areas of community life. Generally speaking, financial reporting is studied from the point of view of the rules of preparation and the accounting principles that must be applied for this document to be truthful and transparent. However, in addition to these issues, one cannot overlook the importance of culture and ethics in studying this topic.

The culture of financial reporting and ethics identify the new frontiers of the correct preparation of financial reporting, and it is for this reason that it is considered appropriate to devote some observations to these fundamental elements of financial reporting itself.

Keywords

culture, ethics, financial reporting, business ethics, financial reporting culture

1. Introduction

In recent years, financial reporting as a tool for communicating income and finances to the outside world has been the subject of numerous studies. The dissemination of this document impacts various areas of community life. Generally speaking, financial reporting is studied from the point of view of the rules of preparation and the accounting principles that must be applied for this document to be truthful and transparent. However, in addition to these issues, one cannot overlook the importance of culture and ethics in studying this topic.

The culture of financial reporting and ethics identify the new frontiers of the correct preparation of financial reporting, and it is for this reason that it is considered appropriate to devote some observations to these fundamental elements of financial reporting itself.

2. Financial Reporting Culture and Legal Regulations

In this article, we intend to address the interconnection between true and fair financial reporting, culture and ethics.

To address this issue, it is necessary to make some preliminary considerations on the concept of culture. In this article's context, reference is not made to culture in the broad sense but the so-called financial reporting culture.

The concept of culture in the broadest sense, as defined by the Treccani dictionary, the best-known dictionary of the Italian language, identifies "the total of intellectual knowledge that a person has acquired through study and experience, reworking it, however, with a personal and profound rethinking to convert the notions from mere erudition into a constituent element of his moral personality, his spirituality and his aesthetic taste, and, in short, in his awareness of himself and his world". In this article, we will not elaborate on this notion of culture. Still, we will focus on the concept of "financial reporting culture". That is a notion of culture related to financial reporting.

We will explore the idea of this specific culture in the following pages.

In addition to addressing financial reporting culture, it is necessary to emphasise the inter-relationship between this type of culture and the legal regulations relating to this document.

Suppose a company lacks a high culture of financial reporting, and there is a lack of knowledge of the legal regulations and accounting principles underlying the preparation of this document. In that case, financial reporting can only be prepared incorrectly, untruthfully and unclearly.

First of all, it is necessary to underline that financial reporting culture has nothing to do with perfect and thorough knowledge of the legal regulations concerning this document.

A financial reporting culture is an "inner attitude" present in those who prepare financial reports and that develops towards the information rights of third parties outside the company.

When it is said that a company has a financial reporting culture, this means that the management dedicated to financial reporting in that company has a strong tendency towards transparency in external communication. Therefore, the information addressed to third parties and concerning the company's situation, in the presence of a high financial reporting culture, is characterised by its breadth and completeness.

Therefore, being endowed with a financial reporting culture means perceiving and accepting that there is an inalienable need for information on the part of those outside the company.

In this context, financial reporting information is not interpreted as a dangerous element or a strategy contrary to the company's interests. Privacy is not seen as an element privacy is not seen as an element to avoid any external information, but only as an essential and inalienable right of the company not to disclose information that could harm the company's management.

On the other hand, if the company is endowed with a reduced culture of financial reporting, income, equity, and financial information intended for the outside world are experienced with annoyance and fear. Informing third parties is interpreted as an act that necessarily harms the company's strategy and the

company. Third parties outside the company are always diagnosed as having an interest in the company and its enemies.

The reduced financial reporting culture leads to insufficient information. Financial reporting information is reduced to the minimum possible, becomes incomplete and is often difficult to understand. The clarity and intelligibility of financial reporting are regarded as irrelevant, and the completeness of the data in the balance sheet, profit and loss account, report and cash flow statement is only not considered to be relevant to the company but even as a protection against an external enemy.

Those with a reduced financial reporting culture do not understand that comprehensive and complete financial reporting can help the company to implement a helpful communication strategy for the company itself.

Therefore, the culture of financial reporting is interconnected to the perception of the right to information that is recognised by those outside the company. The financial reporting culture has undoubtedly evolved. In the last century, the culture of financial reporting was practically absent, so much so that in Italy, we witnessed the issuing of sentences that, in the face of clearly false financial statements, the judiciary stated that it could not intervene because financial reporting was an act of the directors on which not even the judge could intervene. It is understandable that in this situation, companies perceiving the position of the judiciary could certainly not develop a high culture of financial reporting.

With the passing of the decades, the culture of financial reporting has also increased thanks to improving the legal regulations, as we will report in the following pages. The legal rules influence the culture of financial reporting since, in the absence of regulations, the culture of financial reporting within companies will probably be significantly reduced and almost non-existent. On the other hand, in the presence of a structured and complete legal framework, it is easier to spread the opinion that external reporting is a positive element for the company that can positively return in terms of profitability. The community, and together with it, consumers, potential customers and financiers, are well disposed towards those who, without fear, expose their income, financial and patrimonial situation in a clear, intelligible and truthful way.

Therefore, in the presence of comprehensive, structured and analytical legislation, it is highly probable that the financial reporting culture will also evolve in a positive direction and may increase dramatically. Therefore, the culture of financial reporting and legal regulations are intertwined and influence each other, creating a virtuous circle. Indeed, legal aspects very frequently influence the so-called financial reporting culture.

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Figure 1. Financial Reporting Culture and Legal Culture. Inter-relationships

Legislation and the courts often significantly influence the evolution or regression of the culture permeating financial reporting at a corporate level. Thus, it is usual to see an increase in the transparency of financial reporting, understood in the cultural sense of the term, in the presence of a similar evolution in legislation and case law, just as a legislative regression or one linked to the position taken by the judiciary on the subject of financial reporting is highly likely to cause a similar involution in the area of income and financial information intended for third parties outside the company. In these situations, financial reporting interpreted as an instrument of information to the outside world may have relevant substantial content or, on the contrary, may represent a document without an actual communicative capacity.

Although it would undoubtedly be desirable for companies to voluntarily acknowledge the strategic importance of financial reporting as a communication tool for third parties, there is no doubt that the presence of a legal obligation, therefore, identifies an element whose absence lays the foundations so that the balance sheet, the profit and loss account, the report and the cash flow statement are drawn up in a hasty, incomplete and very subjective way by company management.

In addition to the presence of stringent legal regulations, however, the opinion that financial reporting should be regarded as the information tool par excellence must also be widely held by the judiciary, which is called upon, at various levels, to decide on the correctness and clarity of the contested financial reporting.

The fact that jurisprudence considers financial reporting to be the primary means of communicating the income, financial, and asset situation of companies outside the company helps to spread a culture of communication in the business world which, without these elements, would be very difficult to achieve in the business world.

The circumstance that it is considered indispensable that financial reporting, in order to be transformed from an internal company document into a means of information par excellence, must be supported by stringent legal regulations and by a judiciary that shares the opinion expressed above, must be read and

interpreted not in a negative but in an absolutely positive sense, since if on the one hand it is true that the dissemination of a behaviour imposed by law is undoubtedly less appreciable than that which occurs due to the internalisation by company management of the issue in question, on the other hand, it is equally true that the modification of a culture that for decades has impregnated the moment of drafting of financial reporting, hardly appears modifiable if not following a legal imposition and an attitude of jurisprudence aimed at recognising ever greater importance to the information rights of third parties outside the companies of the data from which the situation of the business entity can be deduced.

Table 1. The Culture of Financial Reporting and the Attitude of the Judiciary to Financial Reporting as a Means of External Information

FINANCIAL REPORTING CULTURE	**HIGH**	Financial reporting tend to be precise and reliable, intended as a strategic tool for corporate information and communication	Understandable and truthful financial reporting as a means of informing and communicating the company externally.
	LOW	Financial reporting tends to be ununderstandable and untrue	Financial reporting tends to be understandable and reliable as a mere legal obligation
		CLOSED	**OPEN**
		THE ATTITUDE OF THE JUDICIARY TOWARDS FINANCIAL REPORTING AS AN INFORMATION TOOL FOR THIRD PARTIES OUTSIDE COMPANIES	

Therefore, the degree of development of legislation and case law on financial reporting appears to be inextricably linked to the ability of financial reporting to provide a true, fair and transparent view of the economic, financial and asset situation of companies.

It is understandable that everything written in the previous pages also refers to the accounting standards to which each country refers. In Europe, for example, each country has national accounting standards but also applies IAS/IFRS to listed companies and other special categories of companies. In the USA, there is GAAP. In other countries, the situation is similar. Of course, the spread of national or supranational accounting standards may differ. Still, the existence of supranational accounting standards such as IAS/IFRS and GAAP can be a helpful point of reference for any country.

It is understandable that since these standards complete the legal regulations, various facets vary from one country to another. Still, in any case, they complement the legislation on financial reporting or at least help to understand better the latter, the culture regarding these principles must be equal or even superior to the one that the management in charge of drawing up the financial statements has of the legal regulations and the jurisprudential position regarding the various issues concerning financial reporting. The cultural aspect must, therefore, also include a thorough knowledge of accounting principles. Only in this way can financial reporting can be characterised by truthfulness and understandability

Table 2. Legal Regulations and Accounting Standards: Informative Capacity of Financial Reporting

	LIMITED AND DEFICIENT LEGAL REGULATIONS	SUFFICIENTLY THOROUGH LEGAL REGULATIONS
REDUCED KNOWLEDGE OF ACCOUNTING PRINCIPLES	Likely to produce non-informative financial reporting	Likely to produce non-informative financial reporting
HIGH KNOWLEDGE OF ACCOUNTING PRINCIPLES	Probable preparation of financial reporting with a high degree of communication of the company's situation (in the presence of a high financial reporting culture)	Probable drafting of financial reporting with a very high degree of communication of the company's situation (in the presence of a very high financial reporting culture)

3. You Can' t Not Communicate

Before continuing with the in-depth analysis of the subject we are interested in, it is necessary to underline how, in the context of the problem of external corporate reporting, extreme importance should be attributed to the so-called communication process understood as the inter-relationship between a supplier of news and a receiver of the same. Thus, if, on the one hand, the company must provide the outside world with a series of qualitatively and quantitatively important news, on the other hand, it is equally critical that such information is correctly received by the economic operators to whom it is addressed.

At the end of the 1960s, communication studies were the subject of a real scientific revolution, in the Kuhnian sense of the term. Then, in 1979, Watzlavich, after carrying out an in-depth analysis of the subject, concluded that it is impossible not to communicate. This statement created a profound break with the studies developed earlier; the definition of communication formalised in the 1940s and 1950s,

which revealed a remarkable evolutionary process, had never specifically emphasised this particular aspect of human behaviour.

Watzlavich, on the other hand, analysed the consequences of what one might call an individual's passive behaviour and came to affirm that every subject, irrespective of whether or not he or she sets himself or herself the goal of sending messages to third parties by the simple fact of adopting or not adopting a specific behaviour communicates with the outside world.

From Watzlavich's axiom follows the need for each individual to formulate a true and proper communication strategy, since only by acting in this way are subjects able to programme, and therefore obtain in some way under control, the messages that, voluntarily or involuntarily, they continue to send to the outside world.

One understands how such statements, having considerable relevance in every field of human action. It also acquires particular importance in the corporate world.

Companies, too, therefore, whether or not they adopt a particular behaviour, carry out a communication strategy that impacts the image of the company itself. Suppose a communication strategy is not rationally planned. In that case, it is not, therefore, that there will be no impact on the corporate image, but, much more dangerously, significant adverse or chaotic effects will be detectable. It is also possible that, when such a situation occurs, the company involuntarily gives conflicting signals that lead the external user, unable to understand the company's case, to attribute to the communication obtained a negative evaluation of the company. The circumstance of perceiving the company's unwillingness to provide consistent information may, in fact, lead the third party to hypothesise the existence of a worse and much more negative company situation than the one the company is perhaps experiencing. The chaos of information and the inconsistency between the data provided can lead to the creation, in third parties outside the company, of negative opinions about the company that may not correspond to reality.

Therefore, planning the communication activity is undoubtedly in the company's interest, since only by implementing such an information strategy does the company avoid the danger of sending unfavourable messages to third parties, perhaps unwittingly. As is well known, one of the essential communication tools for a company is financial reporting. This is a document for which all the considerations made above regarding the possible reticent or passive behaviour of companies apply.

Financial reporting is certainly not the only means by which a company communicates with the outside world.

However, this particular economic and financial model is the most widely used and significant information tool. All scholars unanimously believe that financial reporting is the information tool par excellence that the company uses to provide the outside world with income, equity and financial information.

If the company adopts a reticent and deficient behaviour in financial reporting, it informs little but communicates a lot. However, the communication it implements is negative. It sends a understandable and complete message that there is a lack of willingness to share. This means that the third party external

to the company will adopt the decision-making process that best suits this communicative response of the company. Suppose the third party, for example, is a potential future investor. In that case, he will avoid putting his capital in the company if the communication is unambiguous and is based on "non-communication". Such an operation would undoubtedly be inappropriate in the presence of incomplete and inaccurate information. The impossibility of knowing the company's actual situation would provoke an equal but opposite reaction to communication in the potential future investor. The company does not want to communicate? Well, the investor will accept this corporate position and avoid investing in the company.

Suppose the third party were, for example, a potential supplier of the company adopting closed, deficient and inaccurate communication strategies and analysing the financial reporting of the potential client to understand its overall situation. In that case, they likely wish to contract obligations with the reticent company that will disappear in a short time. Therefore, the potential supplier will look for companies where the income and monetary situation is sure to avoid being unable to collect what is due from the contracts signed with the company.

It is therefore understood that 'non-communication is the perfect form of communication. And from this, every subject external to the company will draw his conclusions and opt for a decision-making process deriving from the information obtained, or rather, from the non-information obtained from the company's object of interest.

4. Financial Reporting: Culture of the User for Whom Balance Sheet is Intendended, Il Profit and Loss, the Report Attach to the Financial Statement and the Cash Flow Statement

The judgement on the informative capacity of such a document is therefore essentially linked to the capacity of that document to help the user to make rational decisions. For this reason, when dealing with the problem of communication destined for the outside world, we cannot ignore two specific orders of considerations :

a) To inform means to send, use appropriate tools, message the outside world.

b) Informing also means not losing sight of the actual reception capacity of the user whose message is being sent.

If therefore, on the one hand, it is crucial to bear in mind the characteristics of the company's communication process towards the outside world; on the other, it is essential not to underestimate the role played in this process by the subject to whom the information itself is addressed. The issue of the correct reception of the message contained in financial reporting is particularly important because accounting is not only a semiotic system, which, being composed of signs, is in itself complex to interpret, but also identifies a system with particular characteristics that make the work of those who must understand the messages contained in such a document even more difficult. The main problems that a person has to face when trying to understand the set of signs that are financial reporting are related to the interpretation of the symbols contained in the document.

These problems can substantially reduce to three different cases:

1) In financial reporting, expressions are often used that are also typical of a common language. If, on the one hand, this circumstance can sometimes simplify the task of those who must interpret those signs, on the other hand, it can create significant problems. It is possible that, in many cases, the accounting symbology, while using voices proper to the spoken language, uses such terms with meanings that are also profoundly different from the exceptions in which they are accepted in ordinary language.

Such a situation can lead the interpreter to attribute to the symbol the meaning commonly accepted in ordinary language, with the possibility of falling into misunderstandings, even macroscopic ones, of interpretation.

2) Many accounting terms do not find immediate correspondence in ordinary language. Whoever has to understand financial reporting, in other words, is faced not only with phrases, which could mislead him because their accounting meaning is different from the one normally attributed to those terms in ordinary language but also with purely technical accounting approaches which, not being directly translatable into ordinary language, are in practice incomprehensible to a non-expert reader.

3) Lastly, it often happens that the same symbols designate different objects or vice versa, that other signs refer to identical phenomena.

Suppose one adds to this the fact that different authors may attribute different meanings to the same items and, on the other hand, may assign the same purposes to additional terms. In that case, one can understand how those who have to interpret financial reporting data can become arduous and complex.

These three cases do not represent an exhaustive list of all possible causes of difficulty that a non-expert reader may encounter when interpreting financial reporting.

However, suppose one considers even these brief observations. In that case, one can understand how financial reporting can often be totally or partially incomprehensible to a large number of people who find themselves having to analyse the public financial reporting of a given company.

These problems mainly affect people who are not competent in the field, although it should note that it is not impossible to find in some financial statements. These settings are challenging to interpret, even for those who are experts in accounting.

Therefore, both theory and practice call for an improvement in corporate reporting, to be achieved, among other things, by making the symbols contained in the accounting document that companies must publish more readily understandable.

This wish for an improvement in terms of both rapidity of perception and ease of understanding of the accounting data contained in financial reporting is rooted in the consideration that the company, especially in recent decades, has become the subject of interest of an increasing number of economic operators. It follows that the typical corporate information tool of income, financial and asset nature must be able to be also interpreted by subjects who do not have particular expertise in accounting. For this reason, the doctrine emphasises the need for financial statements not to be hermetic but comprehensible and intelligible to an increasingly wide public.

However, there is not perfect unanimity among scholars as to the degree of intelligibility that should find in public financial statements.

While some authors believe that the language of accounting cannot be separated from an inevitable technicality, other scholars, on the contrary, claim that there is a possibility that the drafting of the document in question can be done by abstaining, at least in part and as far as possible, from an overly technical symbology. The authors belonging to this second doctrinal current point out that, often, adopting such behaviour means clashing with those who believe that financial reporting items should be synthetic.

This necessary conciseness, however, is not so important as to justify a substantial reduction in the informative capacity of financial reporting and, consequently, it has been argued that greater analytically should be implemented so that third parties outside the company, even if they are not experts in accounting, can understand the message contained in financial reporting, in terms of both income and capital and financial position.

Therefore, the various authors who have dealt with this subject have expressed divergent opinions on the degree of accounting technicality that should characterise the financial reporting phase. Nonetheless, all scholars agree on the need for financial reporting to be an increasingly understandable and accessible information tool for many people.

When we hope for better intelligibility of financial reporting, we refer, of course, not only to better clarity of the single items included in the balance sheet, the income statement, the notes to the financial statements and the cash flow statement but to better comprehensibility of the document as a whole and therefore as a whole. This depends on the fact that the individual items of financial reporting, although having their individuality, are part of a more extensive system. This circumstance prevents the interpretation of a specific capital income item separately from all the other components of the financial reporting itself.

To conclude these considerations, it is necessary to highlight one last observation concerning the relationship between the quantity of news provided to the outside world and users' receptivity. As far as this issue is concerned, it must be stressed that informing does not mean submerging the potential user of the information with an enormous mass of news, since it is well known that the best method for not informing is substantial of telling too much. A financial reporting containing a quantity of news disproportionate to the actual needs of the user is undoubtedly less high than that of a document in which, although less data is recorded, in preparing the grid of news to be provided, efforts are made to take into account the actual cognitive needs of the users.

Like that of any other information document, the intelligibility of financial reporting increases not when the amount of information provided is increased but rather when the principle of relevance and selectivity is correctly applied, principles that should always be kept in mind when aiming to communicate effectively with the outside world.

5. Culture and Ethics as Basic Elements for Truthful Financial Reporting

To conclude this brief article on the interconnections between correct, truthful and understandable financial reporting and culture, we must make at least a brief digression on ethics.

When we talk about ethics, we mean values and morals, i.e., a set of human behaviours that living beings put into practice in everyday life. With human evolution, the need to ensure that one's own life does not harm the lives of other living beings has also evolved. Harmonious coexistence has therefore become a fundamental aim of the social life of communities. As Orland points out, it must assume the consensus previously established in every human culture to be essential. According to this author, a person is not born ethical, nor does he or she have a pre-established morality supported by values, judgements and statements. This is proven because the concept of ethics changes over time and has different characteristics depending on the geographical locations we consider. What may be regarded as desirable in one country may be highly damaging in another culture. Ethics does not escape this rule, even if the issues involved are far more complex than what has been stated above and what will be illustrated in this short article.

With human evolution, every subject must evolve as the concepts of market, profit, competitiveness and civil rules of human coexistence evolve. All these issues change as historical periods and geographical locations vary. Therefore, it is difficult to write in a few lines about ethics in financial reporting as this issue is deeply rooted in the rules of life accepted as moral and ethical in the historical period in question. Ethics is one of the most complex philosophical issues addressed by scholars in the humanities. The aim of this article is in no way to examine the historical evolution of the concept of ethics in the human being as a whole.

This article aims merely to make a few remarks concerning business ethics or to use Drucker's concept, ethics in business. Drucker was one of the first scholars to explore this issue in the field of business. He pointed out that, in his opinion, it would be correct to speak of ethics in business rather than ethics in the business itself.

Some scholars (Rathwal, 2016) point out that for ethics to work in an organisation, it is essential that there is synergy between vision statements, mission statements, core values, general business principles and code of conduct. Such a code must have several benefits for both the company and third parties. A practical, ethical programme cannot be determined at a certain point and then left to its own devices. Such a programme requires the continuous reinforcement of solid values and the continual review of corporate objectives set as the mission of the whole enterprise. Therefore, business organisations must act in such a way that their employees and, above all, management absorb the codes of ethics and moral values that the organisation feels it is essential to achieve.

The proper ethical climate requires a combination of structural rules and the continuous and constant dissemination of moral values. Only an appropriate mix of these can ensure that, within a given company, one can speak of the existence of ethics in business.

Ethics would therefore not be linked to the business itself but would result from the behaviour of the people working in the various businesses. Ethics, therefore, is the result of human conduct within a business. It is related to how human beings relate to each other in businesses and how they act in businesses when they have to have inter-relationships outside the business entity. Such relationships, sometimes non-consensual, allow the collectivity to free itself from chaos or from the behaviour of sub-aggregates of subjects that, essentially, a harmonious life of the collectivity itself. In reality, up to now, in the writer's opinion, no founding elements have been reached in terms of universal principles that would allow a precise circumscription of ethical behaviour. In the context of this issue, we should not underestimate the interrelationships that can identify between the subject we are concerned with and the religions that are widespread in the world. Even though there is a large grey area of ethical behaviour, which depends on cultural, religious and human factors, the author believes that it is possible to identify unanimously accepted ethical behaviour. It should emphasise that the grey area is frequently more significant than the area in which behaviour is undoubtedly ethical or unethical.

Table 3. Ethical Behaviour, Unethical Behaviour and the Grey Area in the Context of Non-financial Reporting Issues

Certainly ethical behaviour	A grey area in which defining whether behaviour is ethical or unethical is complex as there are many variables to be considered.	Certainly unethical behaviour

As many scholars have pointed out, business ethics saw its birth in the 1960s and its dramatic development in the 1970s and 1980s. This circumstance shows how the academy, the scholars and the community itself, already in the '60s and 70's, began to perceive the necessity of facing the theme of ethics, even in the awareness of the complexity of this theme and, above all, in the presence of a grey zone where many attitudes can be placed which some consider ethical against others who consider them unethical.

As Reuben Grace masterfully points out, business ethics, or rather ethics in business, developed by including the investigation of six levels of observation.

Reuben Grace points out that the first level concerns the individual. And this level of observation addresses the question of what a human being should do when faced with ethical and moral problems in business, in companies and in the micro or macro communities (such as the family, local communities and the community as a whole) to which he or she belongs. Reuben Grace identifies the second level of ethics at the level of the business entity within which the individuals operate. This level is related to the problems of the internal structures of the enterprise that aim to support ethics on the part of employees or, on the contrary, to facilitate unethical practices. Reuben Grace states that at the level of corporate

policy, corporate culture and responsibility towards the various stakeholders of a company, corporate social responsibility can be considered an ethical responsibility.

The third level concerns particular industries that have an undeniable impact on the environment. The third level involves specific sectors that have a pronounced effect on the environment.

The next level is the national level, where there are problems related to legislation, controls on the business activities carried out by the various companies, and the protection of those who have relations with companies, such as workers, consumers, and the community in general.

The fifth level is the international level. Reuben Grace points out, in a particularly radical way, how these ethical problems concern, above all, multinationals from developed countries operating in underdeveloped countries with no laws or regulations to protect the local community of the country in which these companies operate.

The sixth and final level is the global level. In this respect, we speak of the ethical responsibility of companies concerning global problems such as those related to the environment and the eco-system of the entire globe and connected to companies that have a worldwide impact.

It should note that ethics considered globally can take on a different form in different countries depending on the country's cultural habits. By way of example, one can recall how in Arab countries it is customary to eat with the hands but not with more than three fingers, to act as Mohammed did, while in Chile, it is not acceptable to eat with the hands. It is easy to see how ethics changes as the geographical areas and historical times considered change. Since all commonly accept this last argument, it does not seem appropriate to give examples that would be trivial. What was immoral and unethical 500 years ago can now be considered ethical and moral. What is amoral and unethical today could have been considered perfectly honest and ethical 100 years ago. This is why, especially about business ethics, it is appropriate to refer only to the present time, i.e., the period of the last 50 years.

About geographical area, the writer believes that business ethics does not show significant differences, provided, of course, that one refers to economically advanced countries. If, on the other hand, attention is focused on underdeveloped countries, it is conceivable that, depending on the geographical area, various notions of business ethics can be identified, which rely mainly on cultural and social factors.

On the other hand, in economically advanced countries, while considerable differences may mark ethics in the general sense, as we have already pointed out in the preceding pages, ethics in, or rather, business is a worldwide concept. It is not possible that what is ethical in one country can be considered unethical in another. This, we repeat at the level of business management.

As Reuben Grace points out, the history of ethics, of business or in business, goes back as far as ethics itself. The author points out how we can imagine the first swaps based on the concept of fair exchange. This is from both a secular and a religious point of view. As it evolved, the idea of ethics addressed the issue of property and its moral acceptability.

We do not intend to go into this issue in-depth as it does not fall within the scope of our interest. However, we cannot fail to mention that John Locke worked hard to defend property. At the same time, Marx, on

the other hand, developed a very targeted attack on its ethical and moral acceptability. It is not the purpose of this article to go into these positions in depth. But it cannot deny that historical evolution has led to opposing concepts of ethics.

In particular, business ethics has undergone two topologies of approach in recent decades: the philosophical approach and the descriptive approach. In the author's words, the philosophical branch of business ethics has emphasised business ethics by observing and describing the practices present in the company. However, the descriptive approach has proved more agreeable to business ethics as it is more empirical and more pragmatic. It is, therefore, more suitable for the study of business ethics. Graces state that the philosophical approach has been approached with much suspicion in the business world. Often, saw the philosophical approach as antithetical to the business itself.

On the other hand, the descriptive approach has proved, as Graces says, to be more agreeable to business because it is more empirical and more pragmatic and therefore more suited to the study of business. Today, scholars approach ethics from various angles, sometimes leading to conflicting considerations. Over the past thirty years, the study of ethics has been increasingly deepened and has become increasingly widespread in both the business and pragmatic spheres. This is not the place to list all the various global organisations that address this issue and seek to identify the characteristics of ethical business behaviour.

This attempt has been underway for more than 40 years without achieving a unanimously accepted result in terms of the opinion expressed by scholars, companies and the general public. The problem of ethics has accelerated with the spread of the concept of corporate social responsibility. Ethics has become an element that should characterise the behaviour of every company, or rather of the management in charge of running the company, so that the company itself not only does not harm the community and the environment, but, on the contrary, improves both society in the global sense and the ecosystem of the entire globe.

Adapting behaviour to a vast number of variables makes ethical behaviour in business or business challenging to circumscribe and define. In this respect, Aubert's statement in which this dichotomy is suggested (1963) is exciting: "A conflict of interests between two actors arises from a situation of scarcity. (Both) ... want 'the same thing', but there is not enough availability for each to get what he wants. In this general sense, the basis for a conflict is present in all commercial transactions. The seller would like to have more money than the buyer is willing to part with ... This potential for conflict is eliminated through the operation of the market, usually so smoothly that no obvious signs of conflict appear. If a conflict does come to light, the solution will often be a compromise... It is a type of social interaction in which solutions seem to be reached by discouraging actors from becoming morally involved in an important aspect of the interaction. The condition is that the interests are not diametrically opposed... Competing or opposing interests do not in themselves imply any disagreement between Ego and Alter regarding values. It can also be said that a conflict of interests presupposes a consensus, at least on the value of the good, sought by both parties... A conflict of value is based on a disagreement about the normative status

of an object. ... (The) illegitimate nature of compromise on the level of value and empirical truth makes it difficult to discuss the issues candidly enough ... It is especially when ... issues of factual responsibility, fault and merit, become parts of value conflicts ... that a solution through compromise becomes so difficult...”

It is understandable from the above that the number of variables involved is so high as to make a precise definition of ethical behaviour in business or affairs almost impossible, just as it is regarding ethics interpreted as the subject’s behaviour in everyday life. The numerousness of the variables in play prevents the delineation, in a precise and perfect way, of an ethical behaviour insofar as, shifting the attention to variables perhaps hitherto not considered, one can note how the concept of ethical behaviour is transformed, on the contrary, into a non-ethical act.

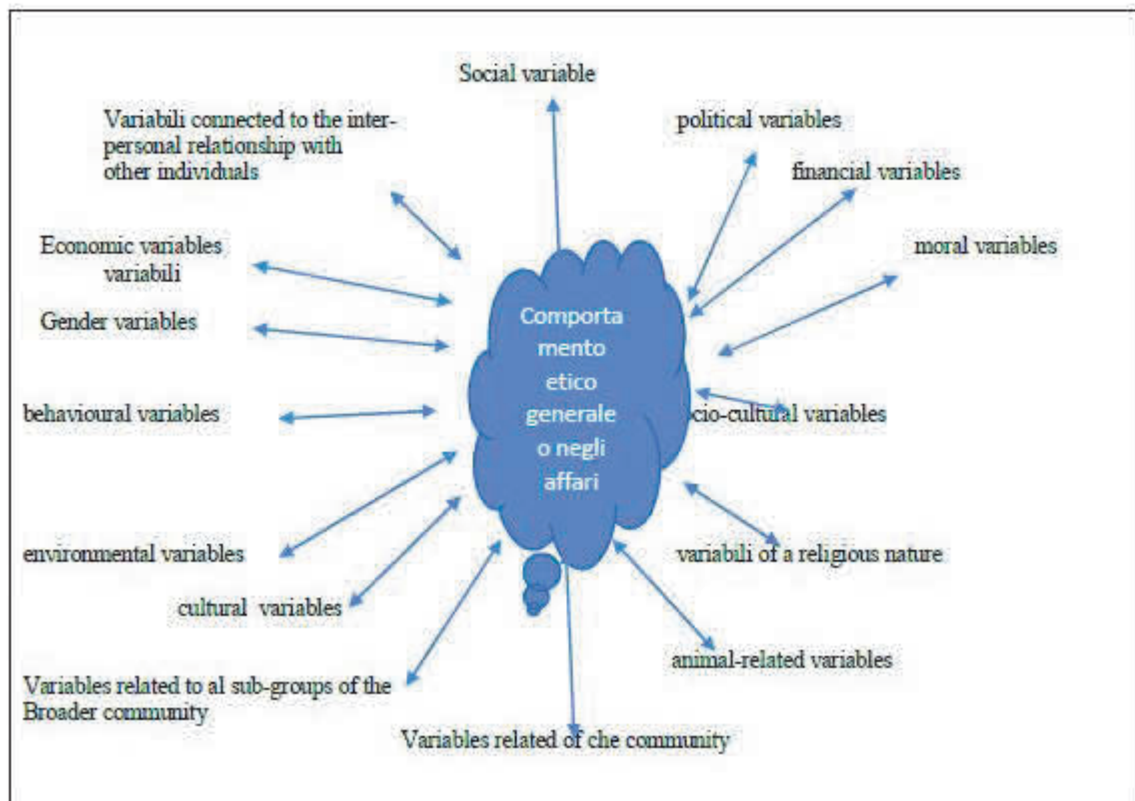

Figure 2. Inter-connected Variables to Be Considered in order to Express a Judgement on the Ethics of Human Behaviour, in the Ambit of Business or Daily Life

To assess ethical behaviour based on the above figure, it should note that each of the variables listed would have to be subdivided into sub-groups of variables that would inevitably have a considerable impact on the judgement of a given subject’s behaviour.

At the end of this brief digression on ethics, we must ask ourselves whether human prosperity is necessary or an optional extra concerning other elements. We agree with those (Mpekasnsambo, 2013) who regard

prosperity as a fundamental need. If a person prevented from prospering limits his life to mere survival, he often ends this agony by simply letting himself live.

In this context, private property must therefore be seen as the basis of human prosperity. This also explains the motivation for many human activities. We have already pointed out that personal property has been the subject of much academic and theoretical controversy. Nevertheless, the writer considers it a fundamental need since human beings, in most cases, try to satisfy their need to prosper precisely through private property.

However, this issue has many facets, the analysis of which is beyond the scope of this article. Nevertheless, it should not be overlooked that, in some instances, specific situations create the conditions under which business ethics can neither be made nor flourish. Consider, for example, the issue of economic competition. Ruthless or abnormally competitive levels of competition can undermine the moral elements underlying ethical behaviour. Abnormal competition or the absence of competition provokes or, instead can encourage, highly negative impacts on ethics in business. In markets where there is no competition, there is no perception of the possibility of prosperity, which hurts ethics as a whole.

On the contrary, competition is fierce. It is easy to detect unethical business attitudes, which are perceived as the only elements useful for the economic survival of the business entity. Ideally, competition should be regulated so that, without reaching abnormal levels, it is at levels that help productive efficiency and effectiveness, creativity and productivity, all carried out ethically.

Since this article aims to focus on financial reporting, the question arises as to what is meant by ethics in the context of financial reporting.

In this respect, it can say that a precise definition of ethical behaviour in a global sense is undoubtedly a very complex operation.

It is easier, on the other hand, to define what cannot be considered ethical. It is unethical to disregard the legal rules underlying the preparation of the balance sheet, the income statement, the cash flow statement and the accompanying report. It is certainly unethical to include in financial reporting non-existent values or values that have been fraudulently altered to mislead third parties. The behaviour of those who, voluntarily and knowingly, disapprove of accounting principles cannot be considered unethical; on the contrary, they must be regarded as elements of integration and explanation of the legal rules.

At this point, one might think that defining ethical behaviour in the context of financial reporting is easy. One might think that ethical is the opposite of unethical. But in reality, we cannot trivialise the situation in this way.

It is well known that financial reporting cannot be considered true but only truthful due to numerous subjective items in it. In the writer's opinion, ethical behaviour requires that, when financial reporting is drawn up, and subjective values are to be established, the figure entered in the financial reporting should be 100% true for the person drawing up the document in question. Therefore, the ethics of financial reporting is to record subjective data with the inner certainty that, at that precise moment, the data is true and real. Concerning objective data, however, there is no difficulty. Ethics in preparing financial

reporting requires that all objective items are entered in the accounts for precisely the amount indicated in the primary documents.

As can be seen, ethics in the preparation of financial reporting has a decidedly reduced grey area in that, if one considers that ethical behaviour requires the inclusion in financial reporting of a true objective data or a subjective value considered at the moment of inclusion as a true data, the contrast between ethical and unethical attitude is clear. There is not much room for doubt.

Table 4. Ethical Behaviour, Unethical Behaviour and the Grey Area in the Context of Financial Reporting

Certainly ethical behaviour in financial reportin	A grey area	Certainly unethical behaviour in financial reporting

At the end of these brief considerations, it is worth highlighting the connection between ethics and knowledge of the legal and accounting rules that underpin the preparation of financial reporting.

They seem to be two topics that have nothing to do with each other, but on the contrary, can identify extremely important inter-relationships.

Bearing these issues in mind, it can say that ethical behaviour in financial reporting requires three essential elements:

1) The awareness that financial reporting is a technical tool whose drafting requires in-depth technical knowledge. A person who, lacking the necessary technical knowledge, prepares to draw up a financial report adopts an unethical behaviour like a bartender who manages to enter an operating theatre and prepares to perform a surgical operation he does not even know exists;

2) In addition to knowledge of the legal and accounting rules underpinning financial reporting, ethics requires that the document be prepared only if one person has accounting experience. A person may have read 1,000 books, but it is easy to make erroneous accounting operations when faced with financial reporting. Such behaviour is unethical.

3) As we have already pointed out, ethics requires that objective data be entered ideally in the accounts. Thus, duplication of values or failure to record objective data indeed identifies an unethical attitude in financial reporting. About subjective values, on the other hand, ethics is the behaviour of those who enter a subjective figure in the certainty that, at that precise moment, that value identifies a true and correct formation.

As can be seen, the issue of ethics in financial reporting is a complex one since financial reporting itself is complicated. Still, the contrast between ethical and unethical attitudes in financial reporting is less complex than in other areas.

A relevant observation concerns the inter-relationship between the act subject to ethical analysis and the set of variables on which such behaviour impacts.

Addressing the issue of ethics in business, for example, is problematic because every act performed by the various managers or subjects operating within the economic system are interconnected. We can define a given behaviour c as ethical or unethical only after analysing every inter-relationship that can identify between the attitude studied and all the variables on which this act affects.

If, on the other hand, we focus our attention on financial reporting, it is necessary to clarify that we contrast ethical or unethical behaviour only and exclusively concerning the drafting of this document. It is not possible to consider, in addition to this, the consequences on other elements, economic or otherwise, related to financial reporting. Ethics in financial reporting exists in the preparation of the document is the total of ethical acts of an accounting and economic nature. We should no consider other factors at all. Even if, for example, the drafting of financial reporting is carried out ethically but results in the dismissal of many employees with the consequent increase in poverty in the area in which the company operates, the judgement on the ethicality of the drafting of financial reporting does not change. Ethics in the drafting of financial reporting does not consider and should not analyse the consequences that, directly or indirectly, are caused by the dissemination of those accounting data. Ethics concerns the drafting of the income and financial communication document intended for the outside world and not the consequences of disclosing those values.E’ per questo motivo che, secondo i parametri sopra indicati, l’etica nella redazione del financial reporting è giudicabile in modo più semplificato di quanto accade con riferimento ad altri atti nell’ambito del mondo degli affari.

Ethics in financial reporting concerns only the drafting of the document under study and nothing else. All other considerations can be brought within the scope of business ethics, or rather business ethics, without reference to the time of financial reporting.

As such, behaviour in the ethics of financial reporting is linked to only four variables, rather than a diversity of them as is the case in business ethics or ethics considered concerning all human behaviour.

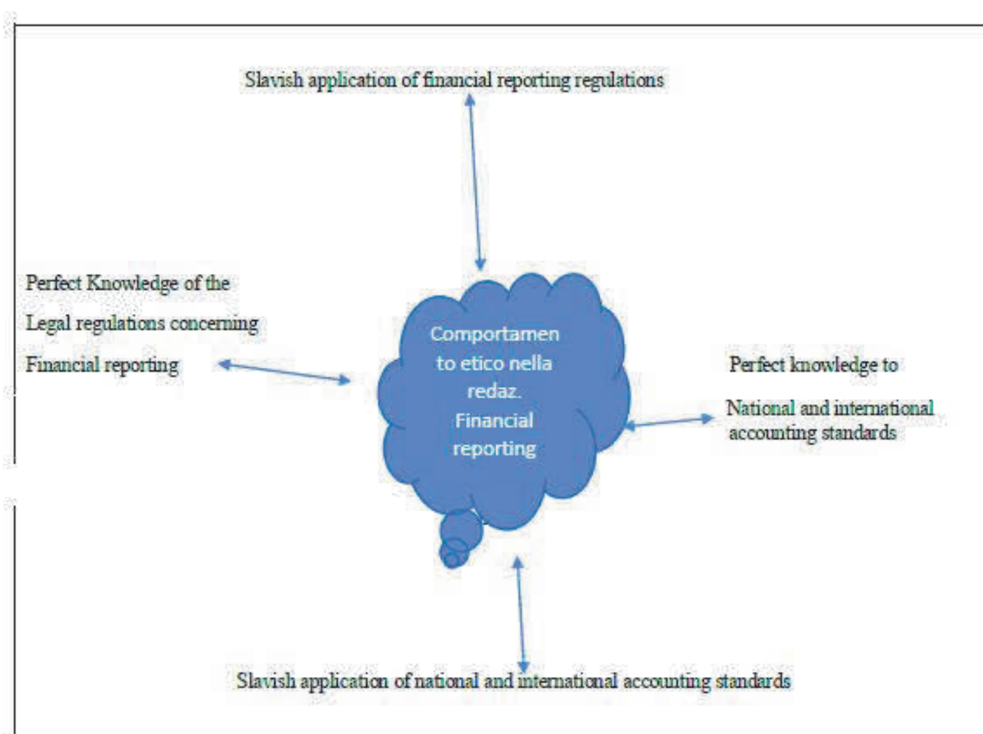

Figure 3. The Four Variables that Must Consider Assessing Ethical Behaviour in Financial Reporting

To conclude these brief considerations, we would like to recall a thought of Drucker's, who stated: "But a society of organizations is also a society in which a great many people are unimportant and indeed anonymous by themselves, yet are highly visible, and matter as "leaders" in society". And thus it is a society that must stress the Ethics of Prudence and self-development. It must expect its managers, executives, and profes- sionals to demand of themselves that they shun behavior they would not respect in others, and instead practice behavior appropriate to the sort of person they would want to see "in the mirror in the morning." (Drucker, 1981)

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