The Role of Entrepreneurs and Accountants in Fighting against Corruption

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Abstract: The role of accountants is crucial for the development of the small and medium-sized businesses. Most entrepreneurs are interested in working with a professional accountant in order to avoid fraud, corruption and money laundering. Very often, starting a business requires entrepreneurs to understand the national or international laws and regulations. Small and medium-sized enterprises (SMEs) collectively are a big business and they generate worldwide nearly two-thirds of the jobs.

The entrepreneurs and professional accountants could have an important role in combating corruption. This paper presents the way in which entrepreneurs are fighting against private sector corruption using the financial information, documents and the accounting system.

The objective of this research is to present an analysis of the entrepreneurs’ and accountants’ activity in combating corruption, based on the questionnaires filled out by managers from medium-sized enterprises in Romania. The final part of the research reveals the results of the questionnaires, which indicate the importance of the partnerships around the world between the accountancy profession, business associations and public institutions, in order to reduce corruption and encourage regional development.

Keywords: accountancy profession, government, accounting, corruption, entrepreneurship

JEL classification: H70, M41, M42, L26

Introduction

The European Union is encouraging and supporting individuals and companies to set up new businesses and to develop the existing ones. Despite the fact that most of the European citizens prefer to work as an employee than a self-employed, the European Commission has recently incorporated the promotion of entrepreneurship into its Europe
2020 strategy. Entrepreneurs take corruption and fraud seriously because of their effects on entrepreneurship. Corruption is affecting small and medium-sized businesses worldwide and a lot of negative effects of the phenomenon can be noticed in the European countries. There are many international organizations fighting against corruption, such as: Transparency International, World Bank, International Monetary Fund, Group of States against Corruption (GRECO), but the entrepreneurs and their accountants are involved in anti-corruption at the national level.

The aim of this paper is to present the connection between entrepreneurs and accountants fighting together against corruption. The role of professional accountants in entrepreneurship has become more important after the recent economic crises (Ionescu L, 2016) and accounting information could help in discovering the corruption cases, fraud and money laundering. Although there are no precise rules to determine the corruption phenomenon, it involves two or more players to offer a bribe or other gifts to some public servants or officials due to the low remuneration levels in the public sector (Zaman G. and Ionescu L, 2014). The cash-flow or payment of bribes to corrupt officials can be identified by the accountants in the financial or management reports and reported to the control agencies or anti-corruption international organizations.

Corruption has a negative impact on entrepreneurship and could entail a decrease in the European economy investments. There are numerous studies on corruption, but it seems that increased competition and the development of entrepreneurship will reduce the size of this phenomenon (Gil Avnimelech et. al, 2011). They believe that innovations, entrepreneurship and competition are the most relevant factors to minimize corruption.

1. The Perception of Corruption

The Global Risk Report 2010-2011 describes the illegal economy nexus and its negative consequences on globalization. Thus, illicit trade, organized crime and corruption are chronic risks perceived as medium impact risks, highly likely to occur. These components represent the illegal economy and have a significant and negative impact on global stability. “The impacts of this nexus of risks can also spread far beyond emerging economies. For example, illicit trade of intellectual property-protected goods reduces incentives for innovation and investment. Trade in counterfeit medicines risks human health globally. Security risks arising from fragile states – terrorism and geopolitical conflict – may have broad consequences.” It is well known that globalization has generated sustained economic growth for a generation, but also it has shrunk and reshaped the world, making it far more interconnected and interdependent.

Corruption is different between countries in global economy and a continuing shift in the balance of economic activity. However, corruption may depend on accounting or local culture in each state (Jeacle I, Miller P, 2016). In Thailand, people are willing to regard as “permissible” a wide range of behaviours from government officials that would have been considered “corrupt” in the United States or Western Europe. A survey conducted by World Bank in 2000 shows how corruption directly impacts people, the business community, and the public officials themselves. In Romania, corruption is affecting public sector performance and citizens wish to offer gifts or money to public servants. Thirty-eight percent of the public officials reported that they had been offered a gift or money.
for different services. This reveals the people culture and people's perception on corruption.

The Global Competitiveness Report 2016–2017 from World Economic Forum 2017 describes a time of rising income inequality, mounting social and political tensions, and a general feeling of uncertainty about the future. According to this report, in emerging markets, the end of the commodity supercycle has led to an abrupt economic slowdown exposing the slow pace or lack of competitiveness - enhancing reforms in recent years, most visibly embodied in the 2016 Brexit vote. Some progress has been made in curbing corruption, which nevertheless remains a problematic factor for doing business in the European countries.

Table no. 1. The list of most problematic factors for doing business in the European countries

<table>
<thead>
<tr>
<th>Government bureaucracy</th>
<th>Restrictive labour regulations</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of tax regulations</td>
<td>Inadequately educated workforce</td>
<td>Corruption</td>
</tr>
<tr>
<td>Insufficient capacity to innovate</td>
<td>Inadequate supply of infrastructure</td>
<td>Inflation</td>
</tr>
</tbody>
</table>

Source: Global Competitiveness Report 2016-2017

Global Competitiveness Report (GCR) is a cross-country benchmarking analysis of the data base covering information from European countries, and indicates the perception of corruption in each European country. Every country experiences corruption differently and many factors are affecting this negative phenomenon. The influence of culture is essential to the economic and entrepreneurship development, with significant consequences on corruption. For example, Romania witnesses a real disconnect between the citizens and the budgetary process, with little involvement of the people in the public activity or debates (Transparency International, 2015). Despite the governments’ efforts to minimize corruption, there are major concerns about public trust in politicians and public officials. The table below presents the perception of corruption in the European countries and my estimation in table no. 2.

We can see in table no. 2 how perception of corruption is growing in some European countries, such as: Cyprus, Czech Republic, Bulgaria or Hungary and is reducing in United Kingdom.
Table no. 2. The Perception of Corruption in Bulgaria, Cyprus, Czech Republic, Hungary, Moldavia, Romania and UK in 2012-2017 period.

<table>
<thead>
<tr>
<th>Country</th>
<th>Score 2012</th>
<th>Score 2013</th>
<th>Score 2014</th>
<th>Score 2015</th>
<th>Score 2016</th>
<th>Score 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>3.4</td>
<td>7.5</td>
<td>7.2</td>
<td>10.1</td>
<td>14.7</td>
<td>15.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>19.1</td>
<td>17.2</td>
<td>16.3</td>
<td>13.2</td>
<td>11.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>13.1</td>
<td>13.0</td>
<td>14.1</td>
<td>11.4</td>
<td>12.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>9.8</td>
<td>9.4</td>
<td>13.0</td>
<td>14.6</td>
<td>20.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Moldavia</td>
<td>17.9</td>
<td>19.8</td>
<td>22.2</td>
<td>20.1</td>
<td>20.6</td>
<td>21.0</td>
</tr>
<tr>
<td>Romania</td>
<td>12.8</td>
<td>10.2</td>
<td>9.9</td>
<td>14.7</td>
<td>15.9</td>
<td>15.0</td>
</tr>
<tr>
<td>UK</td>
<td>0.4</td>
<td>0.9</td>
<td>0.8</td>
<td>0.5</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: http://www3.weforum.org and my estimation

2. The relation between entrepreneurs and accountants in fighting against corruption

The European Union is taking action in order to promote entrepreneurship and to encourage change, collaboration and creativity. According to the Global Competitiveness Report 2016–2017 from World Economic Forum 2017, innovation occurs in an ecosystem where businesses, regulations, and social norms promote connectivity, creativity, entrepreneurship, collaboration, and the adoption of the latest technologies to generate new ideas and bring new products and business models to market. One of the most important EU objectives is to provide a networked, connected environment promoting creativity and entrepreneurship, fosters collaboration, and rewards individuals who take the initiative and have new ideas.

Accountants are important advisers for entrepreneurs and provide practical resources for owner-managers. Entrepreneurs are important clients for financial professionals and there is a strong relation between owners, managers, accountants and employees. Fighting corruption became a priority for entrepreneurs, investors, creditors and employees, while accountants could provide vital information for anti-corruption procedures. Financial reports could reveal important data for cash position and management information, but entrepreneurs are unwilling to give up control of the business to outsiders in order to protect their capital and assets. Professional accountants could discover corrupt practices using the accounting system (Dietrich M, 2005) and auditors could discover the accounting failure (Dunn J, 2002). The accounting system could generate corruption if accounting principles and regulations are not properly implemented (Zaman G. and Ionescu L, 2014). But the fight against corruption is possible with help from the government and professional organizations, as the Association of Chartered Certified Accountants (ACCA), International Federation of Accountants (IFAC), etc.

In order to combat corruption, a special attention must be paid to internal and external payments to third parties. European growing public administration has a strong influence on public corruption (Ionescu L. and Caloian F, 2014). According to the European regulations, when corruption cases are discovered, the fiscal authorities and the police must be informed. Invoicing and payments are approved by managers and entrepreneurs. When the transactions are closed, accountants are preparing management reports, cash-flow statements, budgets, statutory accounts for shareholders and other additional
accounts for the management. Any suspicious transactions must be reported by the accountants to the fiscal and financial authorities, and to the National Office for Prevention and Control of Money Laundering (NOPCML), as well. In Romania, ensuring the protection of the integrity, stability and reputation of the financial national system is a priority for the National Office for Prevention and Control of Money Laundering (NOPCML). Seminars and conferences on corruption and anti-corruption methods are open for the public and entrepreneurs. All entrepreneurs are welcome to participate with their employees and partners.

In order to understand better the entrepreneurs’ and accountants’ activity in combating corruption in Romania we based our research on the questionnaires filled out by managers from Romanian medium-sized enterprises. The questions addressed the importance of entrepreneurship in Romania and the relation between entrepreneurs and professional accountants. About 75% of the participants were entrepreneurs and 60% were managers, with experience in small and medium-sized organizations. Thus, the first question asked the participants to express their perception of the development of entrepreneurship in Romania. The results revealed the following: 90% of the respondents said YES (the development of entrepreneurship has important benefits for the national and European economy), 7% do not find entrepreneurship important and 3% of the respondents said they do not know. The results are presented in the figure below:

Figure no. 1 Perception of importance of entrepreneurship in Romania

![Pie chart showing perception of importance of entrepreneurship in Romania]

Source: Data collated by author

We further asked the subjects to express their opinion on the importance of the entrepreneurs / accountants relation in Romania. Here are the results: 75% of the respondents said YES (accountants are important for all businesses), while the remaining 25% said they do not see the importance of the relation between entrepreneurs and accountants. The results are presented in the figure below:
In order to find out more information, the third question asked the respondents whether they believed that entrepreneurs and accountants must fight together against corruption in Romania and the results were very interesting: 95% of the respondents said YES, all of them must fight against corruption procedures, while 5% of them said they do not know. The results are presented in the figure below:

Finally, we wanted to know the importance of entrepreneurship in fighting corruption in Romania and also if the development of state institutions will help implement anti-corruption methods. The results were very interesting: 85% of the respondents said entrepreneurship is important in the fight against corruption, 10% of them said public institutions could improve their anti-corruption instruments, while the remaining 5% do not know. The results are presented in the figure below:
We notice in the figure above that most of the respondents think that entrepreneurship is an important instrument in fighting corruption by creating jobs and opportunities on the national market.

**Conclusion**

This paper addresses the connection between entrepreneurs and accountants and the role of these independent players in fighting against corruption. Despite the evolution of corruption in some European countries, entrepreneurship is an alternative to the employment on the European market and a way to create new jobs, competitiveness and economic growth. The partnership between entrepreneurs and accountants could help identifying the corruption cases and discover fraud and money laundering. The accountants’ mission is to report the corruption and fraud situations.

This analysis presents the entrepreneurs’ and accountants’ activity in combating corruption and indicates the importance of the professional accountants for small and medium-sized businesses.

**References**


