

ERROR, FRAUD AND STUPIDITY IN PRODUCING AND USING ECONOMIC INFORMATION

Marian Țaicu

University of Pitești, Romania, e-mail: marian.taicu@upit.ro

Abstract. *Economic information is essential for decision-making at both a micro-economic and a macro-economic level. Obtaining and using economic data are affected by errors, fraud and irrational behaviour, which are considered stupid. The paper aims to show how error, fraud and stupidity affect the quality of economic information and the decisions taken on its basis in various areas of economic life.*

Keywords: *economic information, risk, error, fraud, stupidity*

1. INTRODUCTION

The technological, economic, social and scientific developments in recent decades have brought about new challenges with regard to taking decisions at both a macroeconomic and a microeconomic level. The modern world, where everything happens much faster than it did in the past, has brought a new trend of accelerating the pace of decision-making. In the current context, the factors affecting the internal and external environment of an organization, which the decision-maker must take into account, are highly unstable and require a very quick reaction from an organization that wants successful performance. Economic activity and technological developments must be accompanied by the development of economic information in terms of scope, content and timeliness. For an efficient management of any organization, it is necessary to have a well-structured economic information system, in keeping with the information needs of the managers.

Risk and uncertainty, which regularly occur, are features of the modern economy. The terms “risk” and “uncertainty” are often used to express virtually the same thing, although they have different meanings. The word *uncertainty* implies not knowing what will happen in the future, while *risk* is typical of the level of uncertainty, and represents the likelihood of an event that is prejudicial to the proposed results. Also, risk at a microeconomic level is the inability of a company to adapt, in a timely manner and at the lowest cost, to the changes in the economic environment in which it operates.

In the production and use of economic information of all kinds errors often occur, no less than fraud or even approaches related to the irrational and stupidity.

2. ERROR, FRAUD AND STUPIDITY. DEFINITIONS

Any approach to the impact of errors, fraud and stupidity on obtaining and using economic information must be preceded by a series of conceptual delimitations concerning the significance of these three concepts.

Fraud refers to an action that is an intentional act, which is perpetrated by one or more persons with the aim of distorting certain results. Usually, the person who commits a

fraud also takes measures to make their deed hard to discover.

An error is done unintentionally and, most often, its author is not aware of committing it.

One and the same act may be considered an error or a fraud, according to the extent where justice succeeds in demonstrating the unintentional or intentional character of that transgression or misconduct. Economists must have the knowledge and skills needed to distinguish flagrant deviations from random, excusable ones.

Stupidity is the quality or characteristic feature of being stupid, and is associated with lack of reason.

The three concepts can be seen in connection with economic information at both a microeconomic and a macroeconomic level.

3. ERROR, FRAUD AND STUPIDITY AT A MICROECONOMIC LEVEL

Depending on the way it is organized, the information system influences the management system, and that influence is manifested by the impact on the decisions taken. The enterprise's information system has three major components:

a) The technical and operational record system is held by each company depending on the specific activities they carry out. It provides timely and systematic recording of the data generated by the various activities within the enterprise, when and where they occurred. The information obtained by this system are operational and typically is expressed in natural units. Following their selection and processing summary information is obtained, which provides an overview of the organization.

b) The accounting system is the basic component of the economic information system, which records the economic phenomena and processes in terms of value and sometimes also in terms of quantity. It handles and processes the data provided by the technical and operational records, and gives managers the information they need for decision making. The accounting system provides accurate data that are based on the underlying documents of the records.

c) The statistical system provides postoperative information. This information comes in a summary form, and allows comparisons on the results obtained and those projected. It also allows setting objectives for future periods. For data collection specific tools are used, such as surveys, investigations, and censuses, also using the data provided by accounting.

Accounting errors

In general terms, the term “error”, when used in accountancy, means unintentional mistakes such as:

- mistakes of a mathematical nature, or accountancy mistakes in the records being held;
- overlooking, omitting or misinterpreting facts;
- wrong application of accounting policies.

In the dualist accountancy system, these errors can be considered along the two fundamental components: finance accountancy and management accountancy.

In order to identify errors, an instrument is used in finance accountancy, which can be considered rather banal through its simplicity: the checking balance. Certain errors cannot however be identified by means of the checking balance: bookkeeping omissions, compensation errors, imputation errors, and the chronological record errors

Bookkeeping omissions refer to the economic operations that were not recorded in accountancy and can be identified by checking all supporting documents which formed the basis of records in order to find the documents that do not have the mark of registration confirmation. These errors lead to abnormalities in certain accounts, such as credit balance on the active accounts, or overdraft on passive accounts.

Compensation errors occur by transcribing wrong amounts from the supporting documents to the general ledger, or from the general ledger to the big book ledger, and consist in miswriting an additional amount to one side of an account or several accounts, and another amount in minus (equal to the additional sum) on the same side of another account or several accounts, so the two types of errors are compensated. Identifying compensation errors can be made by noticing unnatural balances on some analytical accounts.

Imputation errors occur as a result of transcribing amounts from the chronological record to the systematic record, which are accurate in point of value, yet are transcribed in other accounts than those where they should have been written.

Chronological record errors are caused by, say, wrongly establishing the correspondent accounts or recording an economic operation twice.

In management accounting and costing, errors can be caused by choosing a calculation method without taking into account specific factors, the use of an inappropriate distribution key, or the misapplication of the principles of a calculation method.

With regard to cost calculation, S. Datar and M. Gupta [1] identified three types of errors that can occur: errors in measurement, specification errors and errors of aggregation. Measurement errors are caused by the difficulty of identifying the cost of an activity and the measuring of the resources consumed for the object of cost. These errors correspond either to an erroneous recording in the accounts (an amount is recorded in a different account than that where it should have been written), or an error in the estimate of the inductor level (an employee estimated he/she will spend 20% of his/her time for an operation, when he/she actually spends 35%).

M. Gervais and C. Lesage [2] consider that specification errors consist in omitting an inductor, the use of an inappropriate inductor, or establishing a wrong relationship between the inductor and the cost of an activity. Aggregation errors occur when the cost is obtained by summing the cost

of the resources consumed for the cost objects in different proportions. R. Kaplan and S. Anderson [3] have identified a fourth type of error that can occur: errors generated by the under-utilization of production capacity. By applying the ABC method, part of the expenditure is allocated to activities depending on the time employees declare they spend for each of those activities. By declaring this time, employees cover the possible idle time so that the amount declared equals 100%.

Statistical errors

Statistical errors are inevitable because of the large volume of data, and can be defined as the difference between the actual level of an indicator and the level resulting from statistical investigation. Statistical errors can be identified for each stage of statistical investigation, and can be errors of observation, of processing, of analysis and of interpretation.

Errors of marketing

Within this field, errors can be divided into errors of marketing research and errors of marketing strategies. The errors in marketing research can be assimilated to statistical errors. As far as the errors of strategy errors are concerned, we can enumerate: absence of relevant marketing research, lack of uniqueness of supply, poor knowledge of competitors and their supply, lack of a clear orientation, ambiguous strategy.

Managerial errors

At the managerial level, consistency must be secured between, on the one hand, the mission, vision and values of the organization, and on the other hand, its strategy and the system of measuring the results.

Managers are the recipients of the economic information, but, given the abundance of information obtained in the economic system, in order to avoid information suffocation, they consider only a limited number of indicators. So the problem naturally appears of choosing these indicators that form the dashboard. A good, relevant indicator should have the qualities of a measuring instrument: reliability, sensitivity and simplicity. Sometimes no single indicator can perfectly reflect the evolution of a critical success factor, and in that situation, it is necessary to use several indicators to provide an image as close to reality as possible.

Choosing the indicators to be presented in the dashboard is one of the most important steps in building this guiding instrument, and is directly linked to the specification of the key points of the organization. For the action to be successful, it is necessary to associate each point or item with one or more indicators that are suitable given the nature and limits of the decisions that may be taken.

It is absolutely necessary to make a clear distinction between the concept of information and that of indicator: whereas the information is a measure of a phenomenon in reality, the indicator is the result of a mathematical calculation.

In recent decades we have witnessed the explosive development of computers and IT, which can be used in collecting and processing of data, and also in performance management.

We must bear in mind that an indicator measures only one

aspect of the activity of an organization or a business, and fails to capture its full complexity. To successfully use outcome indicators in decision making, it is necessary to know their information limits.

The information limits of outcome indicators were grouped by M. Siminică [4] as follows:

- limits due to the accounting system;
- limits set by the nature of the indicators;
- limits due to management actions.

We can however identify a **fourth limit** [5]: **insufficient economic training of the personnel**. This involves both the training of the people who calculate the indicators (we have situations when the indicators are calculated erroneously, especially modern indicators for assessing the performance, which are not sufficiently known), and the people who use information (managers at various hierarchical levels).

The success of implementing the management strategy is influenced by several factors, such as:

- an appropriate communication strategy for the staff involved in its implementation. Failure in achieving strategic objectives can be caused by not understanding it correctly;
- appropriate allocation of resources. Any managerial approach is doomed to failure if the human, financial and material resources needed to achieve those objectives lack;
- finding a balance between strategy and tactical aspects. It should be remembered that short-term decisions are intended to contribute to achieving the strategic objectives.

Given the importance of managerial decisions, such errors can have serious consequences on corporate performance.

4. ERROR, FRAUD AND STUPIDITY AT A MACROECONOMIC LEVEL

Decisions taken at government level affect the entire economy, which lends importance to this category of decisions.

American economist Joseph Stiglitz (b. 1943), professor at Columbia University and Nobel Laureate in Economics in 2001, considers that “The big problem facing the world in 2015 is not economic. We know how to escape our current malaise. The problem is our stupid politics” [6].

5. ETHICS IN THE PROFESSION OF ECONOMIST

In general terms, a profession is a calling, an occupation that is permanent in nature, which someone exercises based on an appropriate qualification or a complex of theoretical knowledge and practical skills that define one’s training [7]. As a rule, a profession is defined and assessed through the agency of the knowledge, skills and ethics of the people involved in practicing it.

Ethics is the science or theoretical discipline concerned with the theoretical study of values and the human condition in terms of the moral principles and their role in society; also, ethics is the total system of good conduct, or moral rules [7]. Professor Horia Cristea believes that “ethics is alien to dictatorship and centralism; it is specific to democracy, because democracy implies deregulation, where laws are substituted by ethical principles, without which society plunges into anarchy and disorder” [8]. Deontology is the part of ethics that studies the specific rules and

obligations of a professional activity [7].

Accounting statements and reports can be manipulated to get the results expected by the current or potential shareholders, or to present in a favourable light the results of a manager or a subdivision of the company.

Ethical issues can be generated by:

- management expectations that are contrary to professional ethics;
- the desire to promote in one’s professional career;
- the desire to achieve rapid gains;
- personal obligations, or obligations of the people in one’s entourage.

Setting standards of professional ethics is important because:

- it provides trust in the relationship between employer and employee;
- standards are a benchmark for management accountants, who often face ethical dilemmas;
- it provides assurance to users of information about its quality.

The main factors influencing the formation of professional ethics in accounting management are shown in Table 1:

Table 1. Factors influencing formation of professional ethics

Factor of influence	Type of factor
Universities	Education, support
Professional bodies	Education, support Coercive
Cultural, moral and religious considerations	Education, support
Law	Coercive Education, support
Internal procedures of the organization	Education, support Coercive

Source: author’s own elaboration

Universities have an important role in cultivating the values of professional ethics. Worldwide, the question has been raised, in recent decades, of adapting the academic curriculum by including professional ethics. More often than not, young graduates seeking their first job consider as prime the criteria wages and other benefits provided by the employer, as well as advancement opportunities, while the issues regarding employer ethics are often overlooked.

Professional bodies have a responsibility to remain involved in areas that affect the profession, and must contribute to the effort of drafting legislation and standards that will impact on the profession. For a profession to develop and obtain public recognition it is necessary to have a legal framework and a regulatory framework. That framework ought to respond to the natural needs occurring at the microeconomic and macroeconomic level. Through the importance and impact of the work of economists, their profession serves a public interest. By working with government institutions and other stakeholders the development can be achieved of a professional body that respects the needs of the administration, the profession and the public interest in general.

Culture, morality and religion shape the behaviour of individuals from the inside, having an important role in their reasoning, attitude and ethics. G. Hofstede (1984) made a

classification of countries of the world in keeping with several criteria, including cultural considerations [9]. According to the author cited, culture can be defined as “the collective programming of the mind, which distinguishes the members of one category of people from those of another.” Every culture is characterized by a set of values and its own rules, which are developed by several generations, representing the result of a historical development. Cultural, moral and religious values initially conveyed to the members of a culture by parents, while the social environment in which the individual lives, as well as their upbringing, also exert their influence.

The **existence of laws** is essential to the normal functioning of society, and their appearance is due precisely to the attempt to establish a set of values that must be respected by all members of society in order to ensure justice and order. In time, laws have evolved in close connection with the evolution of human society. The law system may impose penalties to discourage breach of law.

The **internal procedures of the organization** are meant to guide individual behavior, thus having an educational role. Failure to follow and observe these procedures may result in the employee being punished – hence their coercive nature.

6. PENALTIES FOR ERRORS, FRAUD AND STUPIDITY

Responsibility, or accountability, and (legal) liability are dealt with in close relationship with concepts such as moral discrimination and freedom. Thus, determining responsibility and holding someone accountable for his/her actions may be done only if he/she acted freely and knowingly. Sociologists have developed the concept of social responsibility, which concerns individual responsibility to society for anything detrimental perpetrated. Social responsibility has several forms: moral, legal and political.

Legal liability combines three essential functions: the preventative or deterrence function, the function of repression and the reparatory function [10].

Legal liability is triggered if three conditions are simultaneously met: misconduct, guilt and causation.

7. CONCLUSIONS

Economic data or information is vital to making decisions that should lead to achieving performance. Errors, fraud and stupidity affect the quality of economic information and the decisions taken, thus affecting the interests of information users. However, errors and fraud occur inevitably, yet measures can be taken with a view to identifying errors and minimizing their effect.

The risks to which the organization or company is subject to in the market economy increase the part played by economic information, which thus becomes indispensable in management. In the new global context, economic knowledge must be possessed not only by economists, but also by those who are interested in the situation of the organization, company or enterprise, such as shareholders and employees.

Getting information involves certain efforts (both material and human) that generate costs. Thus, as a result of the comparative balance of the value of information and the costs incurred by obtaining them, there appears the need for increasing the efficiency of the information system.

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