The Role of Financial-Accounting Activities and Practices in Corporate Governance

Florin Boghean
"Ştefan cel Mare" University of Suceava, Romania
florinboghean@usm.ro

Abstract

The financial department does not have a passive role in the process of creating added value. It is true that it is not directly a creator of added value, but is actively involved in its distribution to the factors of production that have contributed to its realization, in the sense that it is actively involved in reducing the remuneration of the state (as an infrastructure provider) through taxes and duties. In this article we have conducted a fundamental research. We analyzed the opinions and information provided by the literature using the descriptive method. We used both inductive and deductive methods. The aim at the end of our research was to be able to formulate some relevant conclusions regarding the role of accounting in the corporate strategy, through an approach from international to national, identifying at the same time the coordinates that will influence the future evolution of the thematic approach.

Key words: corporate strategy, accounting information, corporate governance, users of accountancy's products
J.E.L. classification*:* B26, G38

1. Introduction

The development of the information and telecommunications network has created important advantages for market participants and regulators:

• collecting and processing the information necessary for the measurement, monitoring and management of financial risk;

• setting prices and conducting trading operations through new complex financial instruments;

• control of extensive 24/7 transaction logs in major financial centers in Asia, Europe and the American continent.

As far as institutional investors are concerned, speed and low cost of electronic information are among the most important benefits of online trading, seemingly more important than price transparency and lower transaction level. These electronic systems can also increase investors' ability to manage much larger portfolios more efficiently and to conclude a much larger number of transactions in a much shorter time frame.

Whether or not a true technological revolution has occurred based on computing power, the technological changes generated by it have had a major impact on the role of financial accounting information in decision-making, being an important factor in corporate governance as well. Of these, we can list the most important:

a. Increasing the pace of technological innovation.
b. The wide area of utility of financial accounting information.
c. Shortening the duration of the decisional cycles of economic processes and actions.

The extraordinary expansion of communications has led to the disappearance of stock markets as traditional physical places for securities transactions. They were replaced by a global system, integrated on virtual markets consisting of computer networks and terminals that allow the online trading of a large number of shares and bonds listed on the international market, regardless of the reference currency.

With the help of ICT, large financial institutions can serve several markets in a single location. Developments in ICT have promoted a more intensive use of international financial institutions. They also contributed to consolidating and restructuring the global financial services branch (Boone et al., 2003, p. 56).

Numerous researches on the behavior of institutional and private investors in developing markets, however, have identified that 80% of investors agree to pay extra for the actions of companies with an efficient corporate governance system. For corporate governance to positively influence the market value of the enterprise, two conditions must be met:

• firstly, corporate governance must contribute to increasing the income of the shareholders of the company, and

• secondly, the financial market must be sufficiently efficient, so that the share price correctly reflects the performance indicators registered by the company. These conditions are more frequently observed in countries with developed financial markets.

Problems arise from two causes:

• an individual investor may not have the appropriate incentives to bear the costs of enforcing the obligations of the economic unit management. As a result, the investor may try to manifest a "clandestine" (free-rider) behavior in the process of monitoring and enforcing the contracts made by other investors;

• the mechanisms to oblige and penalize the managers may be missing or incomplete, possibly due to the imposition of the respect of the property rights in the respective country. Usually, these two problems are associated.

A study published by SG Emerging Funds Equity Research (*The Straight and the Narrow - Standards of Corporate Governance*) showed that Romania was then 7th out of 10, regarding the application of corporate governance practices in the emerging economies that were studied, strictly based the behavior of the organizations with the best practices existing at the moment, with a score of 20.6 points out of 36 possible ones. In making this ranking, the following criteria were taken into account: the correct conduct of the shareholders meetings, the efficiency in stopping transactions based on information obtained from privileged sources, publishing the trustees' transactions, announcing all capital changes in a timely manner, concluding extraordinary transactions at transparent prices, regular publication of financial results, independent audit, equality of access to information for all shareholders, open and free of charge access to information on shareholder structure, role of Board of Directors, real protection of shareholders' rights by justice, quality of shareholder access in the company.

Another study by Ernst Young & Center for Business and Innovation shows that, in Western Europe, 56% of investors attach equal or additional importance to corporate governance and financial information. Most investors are willing to pay a premium for companies that apply corporate governance standards. This stock price supplement is 12-14% in the US and Western Europe. In Asia and Latin America it is 20-25%, and in Southeast Europe and Africa the maximum value of 30% of the market capitalization is recorded.

2. Theoretical background

The role of corporate governance within an entity in substantiating decisions has been addressed in many books and specialized articles, among which we can mention: *Transparency and Corporate Governance* (Benjamin E. Hermalin, Michael S. Weisbach, 2007), *Law and Finance* (Rafael La Porta & al., 1996), *Auditing, Trust and Governance. Developing regulation in Europe* (Quick R., Turley S., Willekens M., 2008); *Essentials of Corporate Governance* (Anand S., 2008); *Corporate Governance. A Practical Guide to the Legal Frameworks and International Codes of Practice* (Calder A., 2008); *Corporate Governance* (Monks R., Minow N., 2004); *Handbook On International Corporate Governance* (Mallin C.A., 2006); *Corporate Governance and Accountability* (Solomon J., Solomon A., 2004). At the international level the mentioned studies have approached different ways to improve the decision-making processes through an efficient financial management. Multinational companies have already considered the opportunities offered by the financial transformations to make the accounting functions more efficient, but they have also developed accounting professionals to operate as business partners, helping to make decisions within the organization. (Behnam M., 2012, pp.733–746). Financial transformation is already a reality for many companies, giving them a significant competitive advantage. The plan for improving the efficiency of the financial function is clear, but improving business partners, in order to provide decision support, becomes an even greater challenge. (Shi-Ming Huang & al., 2011, pag. 692–701). A change in the management program is needed, starting with a shared vision of the role of the function in the future (Watts R., Zimmerman J., 2000, pp.231-240). Numerous studies have shown the need to develop decision-making models based on human cognitive processes; for example, see Azuma 2006.

3. Research methodology

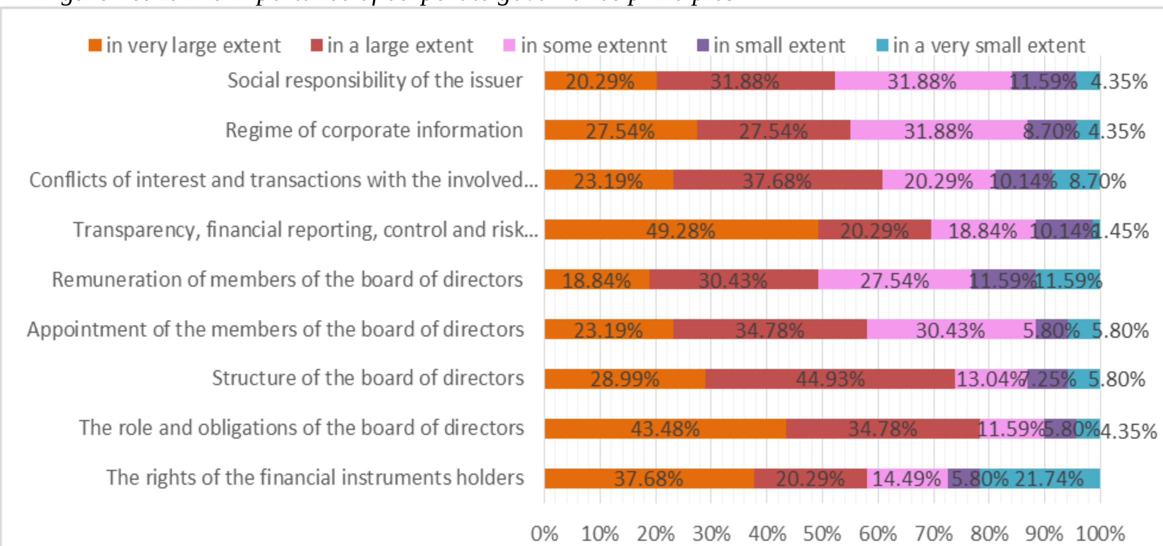
The specialized literature defines the research methodology and the construction of the text of a paper as a "way" to be followed in the research activity to achieve the objectives, namely for information and training. To reach the goals of this research, I relied on a qualitative approach using a general-to-private approach (Gray et al., 2007, p.87). Regarding the human and social sciences, this research is based on the non-participant observation (Lesage et al., 2012, p.272), more precisely the inductive research method is applied, on the document analysis and on the comparison techniques.

4. The role of corporate governance in the efficient leadership of economic entities

Corporate governance must ensure the framework necessary to protect shareholders' rights as stipulated by law and oversee their compliance. (Figure no.1). The fundamental rights of the shareholders include the following:

- guaranteed access to the methodology to enroll the property;
- transfer or conveyance of stock;
- obtaining relevant financial and accounting-related information on time and in accordance with regulations;
- participation and vote in the shareholders' general meeting;
- election of the members of the board of directors;
- profit share from the firm's profits.

Figure no. 1. The importance of corporate governance principles



Source: own processing

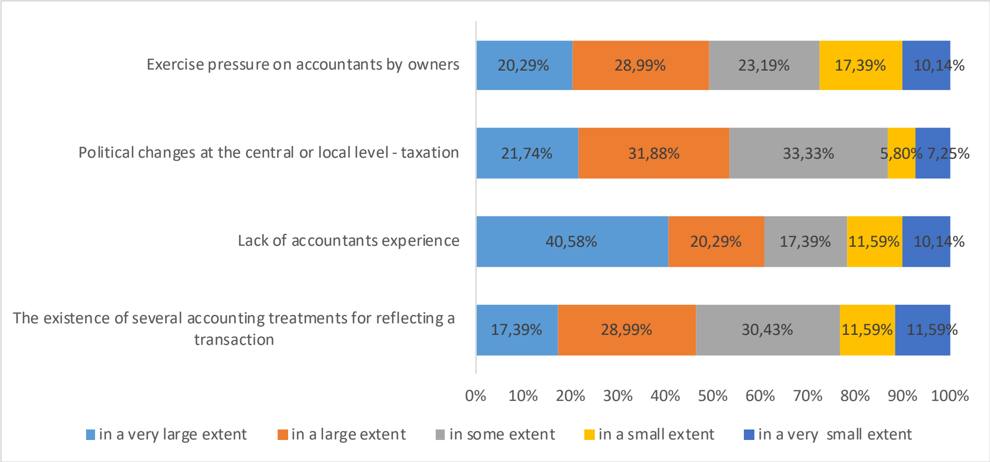
Shareholders have the right to take part and be informed regarding the decisions on fundamental changes within the firm, such as:

- amendments to the firm's statute;
- company contract or similar documents that govern the firm;

• authorization of supplementary actions;
• exceptional transactions, other than firms' object of sale.

The lack of experience on the part of the accountants is considered the main cause that puts its mark on the quality of the accounting information (40.58% consider that to a great extent), followed by the changes in the field of taxation (33.33%). First, financial-accounting information in order to be effective should always be updated, simplified, presented as suggestively as possible, using appropriate terminology for managerial knowledge, to help forecasting (Cordell, 2000, p.30).

Figure no. 2. Factors that influence the quality of accounting information



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The only inexhaustible resource, information has today become a real factor of power, a social good that directly influences the prosperity of people. The most profound change that the economic entities in Romania go through is the one related to the generation, collection, elaboration and dissemination of information. (Figure no.2). Organizations cannot exist outside communication, which they largely generate and mediate. The point of view accepted by the majority of respondents gathers opinions according to which accounting has the role to provide information that faithfully represents the financial position, the performances and the changes of the financial position (39.13%), in a way and form that is most useful to those who use accounting information to substantiate their decisions. Accounting information plays a decisive role in testing the decision factors with essential elements of ensuring a judicious economic mechanism that will favor, in the medium and long term, the profitable integration of the economic companies in the competitive market environment.

The achievements of people have produced a change in the attitude towards risk, and the passion for games and bets has been channeled towards economic growth, improving the quality of life and technological progress. The ability to define what may happen in the future and to choose from several alternatives is a central principle of contemporary society (Boghean F., 2010, pp . 97-105).

Senior management may want to ensure objectives and advice on risks and controls. A properly resourced internal audit function can provide such assurance and advice (Turnbull Guidance, 2005). such as, for example, acquisitions, mergers and systems for developing and implementing new strategies (V. Sankaranarayanan, et al., 2007, p.84).

5. Conclusions

Any economic entity has a fundamental objective that constitutes the motivational criterion for its entire activity. In most cases, the fundamental objective is represented by the maximization of profit. In addition, other objectives may appear, among which: survival, economic growth, optimization of relationships among the participants in the company's activity etc. Furthermore, any enterprise has certain financial objectives as well: financial balance, financial profitableness, output growth for production factors utilization and others.

The investors concerned to know the firm's actual condition want to find answers to the following questions (Raiffa,1998, p.151):

- *Is the company viable?* The balance allows for an assessment of profitableness if a structuring process is undertaken in the positioning of assets by the criterion of ascending liquidity and a classification of liabilities by the criterion of ascending exigibility. This traditional optic of the patrimony and the firm's solvency tends to be replaced by a new one, based on a functional structuring of the balance and on the employment of the financing chart
- *Which are the firm's performances?* In order to evaluate the performances of an enterprise, one has to compare the means employed with the results obtained. This comparison is emphasized by the result indicators, especially by the intermediary trust balances.
- *Which is the company's stage of development?* One has to know the exact increase in the firm's activity during the reported period.
- *Which are the risks the firm is subjected to?* We have in mind here the bankruptcy risk as a result of discontinuance of payments, for example, or the risk of supply intermission, the risk of narrowing down or loss of trade markets etc.

By obtaining answers to these questions and of course to other questions related to the organization they are interested in, investors can get a clear picture of their future financial investment and consequently make a decision. There remains the problem of the quality of this information on the basis of which the investor will make his decision.

It is obvious that technological developments have implications in international economic and financial actions, and the nature and importance of these implications remain extremely controversial. Some critics of technological progress say that rapid technological advancement has a devastating impact on heavily industrialized countries, linking the speed of this process to technological unemployment, while others argue that technological progress means and will continue to mean new and better jobs for everyone.

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