THE CONSTRUCTIVE RELATIONSHIP BETWEEN ACCOUNTING AND PERFORMANCE IN THE CONTEXT OF CORPORATE GOVERNANCE AND ACCOUNTING NORMALIZATION

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Abstract

Since the emergence of the concept of corporate governance, there was a close connection between this concept and accounting, which is enforced by the fact that the latter must reflect, in a conventional manner, all the economic facts that affect the economic entity, meaning the facts related to the production, distribution and consumption of wealth, but also to the creation of value for shareholders and other stakeholders, in this sense being the most reliable, efficient and effective method of economic observation.

The explanations provided by the economic science according to which an economic entity is considered an individual agent who seeks to maximize profits no longer constitute a support for explaining the continental, renan or Anglo-Saxon accounting model, and as such the scientific basis of accounting must be seeked in the scientific approach of the concept of corporate governance, which has as overall objective the study of the manner to lead, to steer, to structure, to develop, to control an entity (company, public institution etc.), to create value for shareholders and other interest groups.

Corporate governance and also the normalization of the accounting have managed for the first time to provide a complete and consistent representation of the economic entity, meaning they defined the essential tools to manage and control the economic activity, to measure its overall performance.

Keywords: *financial performance, corporate governance, normalization of accounting, accounting method, interest groups.*

Introduction

Specific elements of the new global economy (economic liberalization, globalization, increasingly strong competition, the transition from an industrial economy to a knowledge-information-based economy, ecological and social challenges brought by the needs of sustainable development, the financial crisis felt worldwide) have resulted in changing the requirements directed to the various economic entities, and also the diversification of their responsibilities to shareholders and interest groups, to the community as a whole. Therefore, we cannot speak of the viability of an economic entity in a competitive, unstable and turbulent environment without considering the concept of corporate governance, normalization of accounting and without economic and financial performance.

This study aims to be a theoretical study on the constructive relationship issues between accounting and performance, in the context of corporate governance and normalization of accounting.

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1. The objectives of accounting in the era of corporate governance

The process of normalization of Romanian accounting with the International Accounting Standards and with the Fourth European Directive represents a challenge that falls within the scope of the reform process the science and accounting practice are facing in the last decade. The presence of the European component within the Romanian accounting represents a comittment assumed by our country after signing the European Accounting Directives.

In the literature the accounting normalization is defined as follows:

– *the accounting normalization is a social activity subjected to the pressure of groups interested in redistributing wealth*[1]*;*

– *the accounting normalization shall consist in the definition of rules and their application*[2]*;*

– *the process harmonizing the presentation of documents of synthesis, accounting methods and terminology*[3].

The steps taken by the Romanian accounting in these 23 years were influenced unequivocally by the profound changes in the Romanian economy since 1990, by increasingly high demand of relevant and credible information coming from investors and other donors, on the basis of their objectives needs of investment risk assessment and of course performances generated by them.

Corporate governance defines all principles, rules and norms ensuring the administration and management by managers of the entities in the interest of current and potential investors. This is classic and the most common. In its context, managers are studied in relation to shareholders. Being a political report, where there are other stakeholders, corporate governance gains also an expanded interest. Governance and accounting are mutually conditional, although corporate governance influences dominantly the accounting. The connection between accounting and corporate governance is one of interdependence. They behave towards each other in form and content.

The emergence of capital firms and mandating business administration have imposed that shareholders to be major users of accounting information, in order to control managers and measurement of the return on invested capital and the creation of value for them, *at the origin of which stand three levers of strategic nature: strategic levers in the strict sense, financial leverage and governance leverage of the firm*[4].

The answer to the question "What are the objectives of accounting in the era of corporate governance?" must be sought from an evolutionary perspective after 1989, the objectives of accounting changing within 1990-2013. Once with the development of capital firm, the primary objective of accounting is to provide information to owners (shareholders or associates). Normalization and harmonization efforts internationally, as well as the increase of the number of users seeking diversified information printed a public function of accounting. In this context, the accounting has a triple role, at the same time representing a management tool, a control instrument and a means of social adjustment.

In the era of corporate governance, shareholders and other stakeholders, demand the accounting to ensure useful information in the management of the economic entity, to represent a tool in assisting decision, evaluate performance and accurately predict the activity of the company. In this case it is necessary to use the criteria of evaluation of economic

[1] I. Ionașcu, Epistemologia contabilității [*Accounting epistemology*], Economic Pub. House, Bucharest, 1997, p. 79.

[2] N. Feleagă, I. Ionașcu, Tratat de contabilitate financiară [*Financial accounting Treaty*], vol. I, Economic Pub. House, Bucharest, 1998, p. 261.

[3] J. F. Casta, La comptabilité et ses utilisateurs [*Accounting and its users*], in Feleagă, N., Ionașcu, I., Tratat de contabilitate financiară [*Financial accounting Treaty*], vol. I, Economic Pub. House, Bucharest, 1998, p. 263.

[4] Caby, J., Hirigoyen, G., 2005, Création de Valeur et Gouvernance de l'Entreprise [*Value creation and Corporate Governance*], Economic, Paris, p. 39.

nature, which implies that the economic entity is continuing its activity, not pessimistic assessment criteria, thus complying with the rules of prudence, but moving away from reality.

Like other countries in transition, Romania has started a process of formation of the accounting system, with the assistance of EU member countries (France, Belgium and United Kingdom). The beginning of the road chosen by Romania in harmonizing the accounting system was marked by the Accounting Law no. 82/1991, and subsequent amendments and additions as well as the rules governing its application reflected the tortuous road towards EU adhesion and accumulations achieved by the development of the accounting profession. From the point of view of the accounting regulatory level, we can affirm, without fail, that at this moment our country is perfectly consistent with the European requirements in the field of financial reporting, as a member country of the EU. Thus, the Accounting Regulations compliant with European Directives (approved by OMPF 1752/2005, amended and supplemented by OMPF 2001/2006, then amended by OMPF 3055/2009) provides the general framework for reporting in strict correlation with the requirements of European Directives in this field.

Accounting plays an important role within the culture of corporate governance having responsibilities towards the public interest but also towards sustainable and balanced economic development of economic entities, in promoting good practice in service to corporate governance. In the accounting profession as well as the academic environment we talk more and more about corporate governance in the sense of searching for management rules of economic entities to prevent and uncover fraudulent management practices of the company and granting of unfair privileges. The importance of accounting in the corporate governance of companies is highlighted by studies conducted internationally. All these demonstrate the role of the accounting professional, its responsibility in corporate governance and also the increasing role of financial information prepared by it. Between accounting and the concept of effective corporate governance there is a constructive, convergent, positive relationship, the accounting representing *"the recording, classifying and compiling the economic events of logical manner, in order to provide financial information for decision-making"*[5].

In order to provide relevant information, which is always quantitative, the accounting professional must be very familiar with the principles and rules on which their processing is based on and to devise a system for ensuring the accuracy, timeliness and economic efficiency of the facts and events recording. Thus, the accounting must be regarded as the basic instrument governing the system of corporate governance of an economic entity, which follows the internal processes in all their phases, beginning with the phase of conception.

The accounting field is the shaping of the value expression of resources related to the objectives pursued of the economic entity. There are two guidelines. First, on long-term, being familiar with the costs of customers, suppliers, competitors and strategic accounting. Accounting must incorporate into its database physical, monetary and commercial information about its competition, as well as the practices of a company using similar processes and activities, with the condition of preserving the specificity by clear identification of the objective: economic performance. Another guideline considers the needs of financing the operational activity. In this context, accounting assumes a mission of evaluation of corporate governance models that correlate activities and resources, informing management and serving the internal control procedures. In the company accounting is a permanent activity, providing information at regular periods of time about the performance of the entity, its purpose being the balance sheet and the profit and loss account.

[5] Arens A., Audit. O abordare integrată [*Audit. An integrated approach*], Arc Pub. House, Bucharest, 2003, p. 14.

The development of accounting, in particular the financial performance assessment, increases the capacity of response towards shareholders, employees, customers, Government and business community.

2. Effective corporate governance and normalized accounting, supportive pillars of the economic entity's performance

Corporate governance has a number of implications over the accounting; accordingly, there are made decisions leading to maximize the value created for shareholders, which is in fact the purpose pursued by them.

Effective corporate governance and normalized accounting are supportive pillars of economic entity's performance. *The accounting normalization takes place on the ground of the need for universal in accounting, its complement being international accounting harmonization*[6]. It aims two main purposes: obtaining by public power of homogeneous information relating to economic entities and using accounting information by stakeholders, in particular with regard to comparisons over time and space.

The advantages of normalization are relevant[7]: *improving accountin; a better understanding of accounting; ease of control over accounting; comparing financial information; strengthening accounting within larger groups, sectors of activity, regions or the nation; developing statistical data*.

Standardized accounting allows:

- the entity to record systematically all events, operations and situations that take place over time and to formalize them in the financial statements;
- obtaining information comparable over time and space, based on which are assessed the trends and evolution of an entity from one period to another, also in relation to other companies;
- getting some forward looking information that provide users to make predictions and estimates about the evolution of the enterprise;
- investors and other stakeholders to have regularly different information formalized in various forms and media and communication, in particular annual financial situations, in order to help them in substantiation decisions;
- fixing some accounting information qualitative characteristics and assessing the usefulness of information according to these criteria.

Economic entities' efforts to promote the reform in the field of accounting in the corporate sector provide clear and direct benefits to entities and business environment in Romania. High-quality financial information is significant for the proper functioning of corporate governance principles. Moreover, they provide to current and potential investors an assurance concerning the reliability of the information that is or will be the basis for investments decisions. In addition, the reform in the field of financial reporting is particularly important for commercial relations between Romania and the European Union. Improving the quality of financial reporting of domestic entities will contribute to increase the reliability and comparability of the information in the financial statements and the creation of a favourable business environment.

Theoretically, effective corporate governance leads to a lower cost of capital and reduces the economic entity's risk. A low cost of capital is equivalent to the application of

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[6] Ristea M., Dumitru G., Contabilitate aprofundată [*Advanced accounting*], Mărgăritar Pub. House, Bucharest, 2005, p. 9.

[7] Claveranne J, Darney J., Comptabilité et enterprise, Comptabilité générale, Applications et réflexions [*Accounting and company, General accounting, Applications and reflexions*], Economica Pub. House, Paris, 1991, p.37.

lower rates of future cashflows, resulting in a higher market value of the action, and hence a higher value of the company.

Companies with effective corporate governance have managed to avoid a drastic reduction of the shares listed on the Bucharest Stock Exchange during the financial crisis, 2009-2011.

Economic entities must especially strengthen corporate governance mechanisms to reduce the cost of capital and debt, and thus the growth of economic and financial performance. We can state that the performance of a company can be achieved using the trinomial: effective corporate governance – reducing the cost of capital – reducing the company's risk.

The effect of improving the corporate governance mechanisms has a positive influence on the efficiency of actions, pointing out that economic entities listed on the Bucharest Stock Exchange with an effective corporate governance record a higher profitability of shares when the economy is expanding (economic boom), but a small profitability during economic contraction (economic crisis).

In the broadest sense, corporate governance refers to the method of assessing the balance of interests regarding the fact that the economic entity lies between employees, investors, stakeholders and other economic entities. It denotes the system whereby the company's objectives are defined and achieved, risks are assessed, and the strategies are chosen for the proper achievement of the performance through the standardization of the various processes. Considering the fact that effective corporate governance is based on the principles of responsibility, transparency and control of decision makers, the reporting on the situation of the company, corporate governance must highlight: clear organisational structure of the company with precisely defined rights and responsibilities of members, managing body and other employees of the entity; effective procedures for the identification, measurement, monitoring and control of the risks to which the company is exposed to; transparency in the activity of the entity related to all stakeholders, in accordance with the rules and business policies of the company; supervisory and control systems set up at least at the following levels (e.g.: supervision by the supervisory and control bodies set up by the company, as well as the monitoring of the operations of the executive body of the entity; internal control systems; integrated risk management system; setting the control function in accordance with the regulations; independent internal audit).

At the level of the company, corporate governance in accordance with the normalized accounting researches the organization of power and the increase of responsibilities between shareholders, administrators and managers. At this moment, this binomial, governance – normalized accounting, is used to designate the action to govern the manner of administer, manage both at the State level, world bodies and companies.

Contemporary economic activities are dominated by the internationalization of markets. This has as direct effect a severe competition, forcing entities to permanent innovation and restructuration. The pace of change and adaptation at this rhythm became the performance key and survival of these entities. The stake is the increase of the capacity of response and reactivity of entities to essential features, time, quality and costs, which implies: leveraging the experience, understanding, shareholders, managers and employees experience; fostering innovation; funding resources; work processes etc.

For such transformation projects to be realized, it is essential that the company should be equipped with appropriate corporate governance mechanisms in order to achieve success in many projects in parallel, especially in the field of information systems with very important role in change management.

To deal with the uncertainty and complexity of the modern world, a new means of governance has emerged, which considers not only the need to inform shareholders and their satisfaction, but also the ability of the entity to respond positively to the new restrictions set out in the market through external bodies, representatives of the company and its staff, public opinion etc. An entity will not be assessed only on the basis of economic criteria or profitability, but also by resilience and reactivity, by creating value for shareholders and other stakeholders of the results of the company.

The development of corporate governance requires the establishment of the basic principles that: lead relations between different participants; clearly define responsibilities; guarantee the correct functioning of the decision-making process.

3. The future of accounting in developing viable corporate governance

Which will be the future of accounting in developing healthy corporate governance? In my opinion, this scenario takes into account two pillars, namely, the accounting will be reduced to a strictly legal and fiscal role in the case of small economic entities, with an emphasis on legal function of the accounting, or the role of accounting will broaden to the coordination of various systems of information that will multiply in large economic entities, emphasizing the managing function, considering accounting as a database, which will ensure transparency and comparability of information to investors and any other third parties. Using databases is consistent with the accounting computerization and the impact that IT has on the evolution of accounting and corporate governance system at the macroeconomic and microeconomic level. The use of databases enables accounting to meet specific requirements of various users by taking into account very different criteria of evaluation and classification of accounting information. Precisely the information classification criterion distinguishes between the different types of databases. Accounting can exploit this variety by diversificating the offer, abandoning the principle of oneness of balance sheet, but pursuant the accounting and corporate governance principles and as well as international guidelines for preparation and reporting of economic and financial situations.

The role of accounting in developing viable corporate governance will be determined by being aware of the fact that financial and accounting information represent a business card of a company, and their production is the finality of the accounting business. Officials from the economic entities should be aware of the role they have in the process of implementation of corporate governance and accounting as social game and social good must support this approach. The concept of corporate governance sends us directly to the influence of strategic decisions relating to the creation of value at both the macroeconomic and the microeconomic level. A viable system of corporate governance in accordance with a normalized accounting should lead us, with the help of surveillance mechanisms, to a high degree of responsibility of the main stakeholders of economic entities (supervisory boards, shareholders, executive board, etc.)

The constructive relationship between the accounting and corporate governance systems is based on information underlying the financial situation – company performance binomial, which are first mentioned in the OECD recommendations, according to which, the corporate governance framework should ensure the disclosure of accurate and timely in all aspects of information on the company, including financial accounting, performance, ownership and governance. This information is needed in order to reduce costs to the agency and information asymmetries between managers and stakeholders, which include not only shareholders, but also a wide variety of other interested parties, all of these being disadvantaged in terms of access to information in comparison with managers, who control the decision-making process. This is why a comprehensive information system, which would include both non-economic information and also reporting data would help interested groups, including shareholders in order to obtain adequate and reliable information. It can be said that the financial situation and corporate performance should work as a whole, they actually representing the fair image of effective corporate governance. And the reverse is also true, that effective corporate governance has a positive, advantageous, beneficial effect on the financial situation of the company. Corporate governance with a serious risk level has a negative, unfavourable impact on the financial situation of the economic entity. Also, accounting information presented in the financial statements are perceived as a control mechanism that promotes an effective corporate governance in an economic entity.

There is no doubt that at the microeconomic level is a constant concern for understanding and implementing key elements of corporate governance and standardization of accounting. Fairness, credibility and transparency in relations with stakeholders, taking responsibilities, optimal risk management is essential to ensure full consistency between corporate governance and accounting normalization able to support and promote the performance at the entire national economy level.

Conclusions

The objective of this study was to determine the constructive connection between the elements of the corporate governance – normalization of accounting –performance trinomial, for the economic entity to achieve its main objective, namely the creation of "wealth" for shareholders. Optimal operation of this trinomial involves the convergence of relations between corporate governance, managers, investors and any other stakeholders.

It is important to recall that the achievement of the objectives of effectiveness and operational efficiency allows on medium and long term, saving economic assets; in this respect, the trinomul normalization of accounting – corporate governance – performance, well managed and controlled, will ensure that the internal structure of a company to be organized in such a way as to achieve the strategic objectives set by the economic entity's top management, through compliance with the requirements of efficiency and optimization of risk reduction activity and the creation of value for the company's investors.

Corporate governance in close connection with the accounting normalization have managed for the first time to provide a complete and consistent representation of the economic entity, meaning they defined the essential tools to manage and control the economic activity, to measure its overall performance.

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