

# THE ROLE OF THE ACCOUNTANT PROFESSIONAL IN THE CONTEXT OF THE CORPORATE GOVERNANCE AND THE EXTERNALISATION OF THE ACCOUNTING FUNCTION

**Boghean Florin**

*„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration*

**Hlaciuc Elena**

*„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration*

**Boghean Carmen**

*„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration*

*According to the Organization for Economic Cooperation and Development - OECD, corporate governance is the system by means of which companies are managed and controlled. In 1999, were published the OECD Principles of Corporate Governance, these being currently recognized as one of the 12 pillars of international financial stability. The OECD principles served as a reference point for compiling a collection of national corporate governance codes. They focus mainly on the companies listed on regulated markets, although they also cover issues related to companies that have a big number of shareholders but are not listed. These principles refer to: the rights of shareholders and their protection, the equitable treatment of all shareholders, including the minority and foreign shareholders, the role and rights of stakeholders, the transparency of information and its prompt dissemination, the responsibilities of the Board of Directors and of the executive management.*

*Keywords: corporate governance, the accounting financial information, users of financial accounting information*

*Jel classification: M 48*

## **1. Introduction**

Against the backdrop of the recent financial crises, reforming the institutional architecture of the national capital, through the adoption of several efficient stock regulations has become a priority. Likewise is elaborating and implementing stimulating measures for the development of the corporate sector, starting from the premise that a strong economy, with a solid, open and transparent financial market may cope with the challenges deriving from the globalised international environment. By way of consequence, a key-element for improving the economic efficiency and establishing an attractive investment climate is a *good corporate governance*<sup>553</sup>.

Among the most important benefits of implementation high standards of company management we mention:

- efficient use of resources;
- reducing the capital cost for companies;
- increasing the investors' trust, through the managers' reconsideration of their discretionary attitude and the reduction of the corruption level.

---

<sup>553</sup> M.Ghita, Ct. Iașco, C. O.Brezuleanu, M. Vorniceanu, *Guvernanța corporativă și auditul intern*, Editura Tipo Moldova, Iași, 2009.

At the other end, weak corporate governance distorts the effective distribution of the capital in the economy, slows down the foreign investments and reduces the capital holders' trust. James D. Wolfensohn, ex-president of the World Bank, stated at a given moment: *corporate governance is more important for the economic growth at a world level than state policies*<sup>554</sup>.

Although amply criticised, the globalisation process knows an ongoing expansion, the internationalisation of the markets and of the enterprises' activities being a profound and irreversible phenomenon, which determines the companies, be they large or small, to adopt measures accordingly. The corporate governance systems differ much from one country to another, and these differences directly affect both the development process of the global strategies and the types of strategy that can be adopted.

The decisions of global strategy represent a real touchstone for the efficiency of the corporate governance systems that pursue the maximisation of the profit and of the global competitiveness which most of the times is attributed to the participants in the governing. By definition, the global strategy refers to the adoption of a strategy extended beyond the frontiers of the country, which could affect, to a large extent, the stakeholders that have strong connections with the company in the country of origin.

In 1999 were elaborated the **OECD Principles of Corporate Governance** (Table 1), which are today the only set of unanimously accepted principles, being universally acknowledged as one of the twelve supporting pillars of the international financial stability. The OECD principles have served as a reference point for compiling a collection of national codes regarding corporate governance. First of all, they concentrate on the publicly traded companies, also approaching topics related to the large shareholding societies, but which are not listed. They can also be useful regarding certain aspects of the management of the smaller private firms and of the state enterprises.

**Table 1 - OECD Principles of Corporate Governance**

<ul style="list-style-type: none"><li>- <b>the shareholders' rights and their protection</b> (the right to dividends, the right to be informed concerning the decisions related to the important changes in the company's life, the right to participate in and to be able to vote in general meetings);</li><li>- <b>equal and fair treatment of all the shareholders, including the minority and foreign ones;</b></li><li>- <b>role and rights of the stakeholders</b> – this concerns the role of the employees, of the creditors, of the suppliers and of the clients in the management of the companies, which must be respected as it is defined in the national legislation;</li><li>- <b>information transparency and their quick dissemination</b> (reporting to the shareholders all the current financial, administrative, extraordinary activities, on a regular basis, in time and correctly, the independent audit, etc);</li><li>- <b>responsibilities of the Board of Directors and of the business executives</b> (number of members of the Board of Directors, number of independent members, way of appointment, revocation, remuneration, etc).</li></ul>
--

These principles were elaborated at an extremely general level, the countries enjoying the possibility of endorsing them and of granting a higher or smaller degree of importance to certain particular aspects. They even state that it is not desired to impose a universal pattern of corporate governance;; at the same time, but the long-term tendency is to achieve global standards<sup>555</sup>.

## **2. Externalisation of the Accounting Function. Pros and cons**

<sup>554</sup> Cannon, D.M., Godwin, J.H., Goldberg, St.R., *Risk management and governance, The Journals of Corporate Accounting & Finance*, Volume 20 Issue 1, November/December 2008, pp. 1-99

<sup>555</sup> Holly J. Gregory - *The globalization of corporate governance*, OECD Business Sector Advisory Group on Corporate Governance, 2000, pag. 18

The development of informatics and its use in accounting led to the reduction of the time allotted to the traditional accounting function. Furthermore, the accounting function can be assigned to a specialised accounting firm, with managerial and entrepreneurial qualities. To put it differently, the accounting function can be „externalised”<sup>556</sup>.

Without going into details, we can notice several advantages and disadvantages, for the client enterprise, linked to the externalisation of the accounting function. These aspects are presented in Table 2:

**Table. 2** – *Advantages and disadvantages linked to the externalisation of the accounting function*

<b>Externalisation of the Accounting Function</b>	
❖ <b>Advantages</b>	❖ <b>Disadvantages</b>
<ul style="list-style-type: none"> <li>- from a <i>professional</i> point of view, there is the certitude that the accounting is administered by abiding to the law and to the new regulations in accounting;</li> <li>- from a <i>financial</i> point of view, the externalization of the accounting function enables the transfer of the fixed expenses of the accounting department to variable expenses. There also appear expenses savings, by avoiding the overtime payment and of other upkeep and good functioning of the computing technology expenses;</li> <li>- from a <i>material</i> point of view, there are substantial savings, by avoiding buying computers, printers, computer programs, etc.;</li> <li>- from a <i>strategic</i> point of view, the enterprise can concentrate its attention on the basic activity and on the image of its performances.</li> </ul>	<ul style="list-style-type: none"> <li>- the seeming loss of one of the basic managerial functions – the control function;</li> <li>- the appearance of suspicions in what concerns the information confidentiality.</li> </ul>

The adoption of international norms in accounting can open wide the gate to the information exchange between enterprises all over the world. By using the current technical means offered by the internet, the enterprise enters the world circuit, gaining a multidimensional vision. Anywhere we may be as specialists in the domain, or to whichever accounting firm we may entrust the accounting work of our enterprise, we may determine:

- cost of products, groups of products or services, etc.;
- cost of several elements in the structure of the enterprise: centres of responsibility, departments;
- cost of an activity;
- cost of the economic function;
- cost of a geographical area or of a branch.

Under the same conditions, we can find out:

- the identity of an enterprise;
- further information of a legal or financial nature;
- further information from the financial press<sup>557</sup>.

*Why do companies appeal to the externalisation of certain business processes?*

- in order to reduce and control the costs linked to these processes;
- in order to enable the concentration on the main field of activity (core business processes);
- in order to have access to better quality services;
- in order to keep free resources for other purposes;
- in order to share risks (source The Outsourcing Institute).

<sup>556</sup> [www.globalizarea.com](http://www.globalizarea.com)

<sup>557</sup> Gurgu, Elena, Dobrotă, Niță, *Globalizarea activității economice. Realități și tendințe*, A.S.E., 2007

At an international level, the outsourcing field knows two types of opposing tendencies. On the one hand, there is an increase in the number of the companies appealing to outsourcing and, consequently, of those to whom services or entire business processes will be externalised. But, on the other hand, there is the general opinion according to which some companies, after having externalised an activity, after a while, renounce at this practice and come back to the in-house practice.

A recently done study mentions, among the most frequently externalised business processes the following ones: administration of payments, of receipts, human resources, the internal audit, the accounting finances, etc. But the most active area in outsourcing is information technology<sup>558</sup>.

### ***Pros and cons Outsourcing***

Appealing to outsourcing has both supporters and opponents. On the one hand, the cost reduction continues to be an important factor in appealing to outsourcing, but it no longer seems to be the only prevailing factor. Other factors interfere, such as: concentration on the main activity, better quality services, access to expertise from the outside (software development, Internet services). The average duration of the outsourcing contracts is of three years.

An important emotional factor intervenes both before and during the externalisation of certain activities. The organization's resistance is the biggest barrier in the way of outsourcing. Other barriers could be the loss of control, doubtful performances, inadequate planning, lack of experience in outsourcing<sup>559</sup>.

According to the way in which these barriers will be overcome (be it by means of the effort of the companies undertaking these services, or due to the customers), there appears the second mentioned tendency, that is that after the externalisation contract expiration, there is a strong chance might not be renewed.

The main reason underlying this decision is of a practical nature and concerns the quality of the provided services. The moment in which the SLA level (Service Level Agreement) aimed at is not attained, the company usually prefers to place the guilt, be it real or not, on the firm to which it had externalised its services. And, most of the times, the company gets to develop in-house competences necessary to providing the services<sup>560</sup>.

The tendencies manifested by the accounting domain reflect on the information system of the enterprises, and the development directions of the information systems have deep implications on the accounting.

### **3. Conclusions and Propositions to the Analysed Topic**

The change rhythm registered in Romania in recent years in the financial-accounting sphere outruns by large the one of the evolution of the economic performances. The observed realities will continue influencing the recommendations received by the organisations in the Romanian economy in many other directions deriving from the **optimisation of the management and of the financial-accounting communication**, such as the corporate governance pattern specific to Romania.

The recent realities certify the fact the countries in South-Eastern Europe, including Romania, have made quite big progresses in managing the corporations in recent years. The applied reforms have improved the legal frame and the frame of regulations by creating an effective protection against abuse. OECD, together with USAID (United States Agency for International Development) initiated a cooperation programme, whose main purpose is to improve the corporate governance in Eastern Europe, through measures such as:

---

<sup>558</sup> Dun & Bradstreet / The Outsourcing Institute

<sup>559</sup> Spencer Pickett, K.H. *The Essential Handbook of Internal Auditing*, John Wiley & Sons Ltd, *The Atrium*, Southern Gate, Chichester, West Sussex PO 198 SQ, England, 2005.

<sup>560</sup> www.ensight.ro

Monitoring and evaluating the current stage of corporate governance in these countries;

- Identifying the specific needs in the area and providing technical assistance;
- Improving the degree of comprehension of the corporate governance practices and informing the international communities regarding the achieved progresses;
- Facilitating the access of these countries to a continuous dialogue at an international level.

Based on the studies conducted until recently, the causes/hindrances specific to the weak corporate governance in our country, and, at the same time, the obstacles in developing an efficient capital market were:

- the capital market appeared in Romania relatively late, just like the majority of the capital markets in Eastern Europe, as a result of the process of mass privatisation, in order to ensure a liquid market for the actions implied by this process; for a long time it did not go beyond this stage, and, furthermore, the privatisation developed extremely slowly.
- the very weak practice of a modern management in the Romanian entrepreneurial environment, the exceptions being represented by the listed companies which have a majoritary institutional investor;
- the managers of the listed societies are not familiarised with the corporate governance principles and are reluctant to reveal certain information. Furthermore, the majority do not appeal to the capital market in order to find sources of financing, so they are not interested in improving their image;
- the shareholders' passivity, especially in the case of the companies in which the main shareholder is the state.

The importance of the corporate governance to the development of the capital markets is unquestionable. Thus, a series of recent research shows that the companies with a good corporate governance, measured through coefficients of the type CGQ (calculated by International Shareholder Services) have 18,7% up to 23,8% higher financial performances than the ones with weak corporate governance, according to the type of financial market they are listed on<sup>561</sup>. Also, on the developed capital markets, the firms with high standards of protection of the shareholders register increases in the stock capitalisation up to 8,5%/ per year. Among the measures that can be taken regarding the improvement of the corporate governance in our country, we quote:

**Figure 2 – Measures to improve Corporate Governance in Romania**

---

<sup>561</sup> Brown, Lawrence D., Caylor, Marcus, *Corporate Governance Study: The Correlation between Corporate Governance and Company Performance*, Institutional Shareholder Services, 2004.

- developing independent authorised consulting societies and rating agencies meant to provide precious analyses and information for the interested investors, upon payment;
- increasing the activism of the shareholders and of the businessmen association, as well as encouraging certain open systems of reaction and implication in the elaboration of regulations, norms, laws;
- improving the legal system through its reform, as it is a premise for a credible system of corporate management;
- stimulating the cooperation between the responsible institutions in our country, by developing common projects regarding the capital market and strengthening the international dialogue on this theme;
- increasing the exigency of the bodies supervising the markets and the reaction speed if breach of the provisions is found;
- increasing transparency and credibility of the societies management by allowing the participation of independent persons in the Board of Directors;
- encouraging the employees to make public any illegal practice noticed in the company where they work.

Yet, the current knowledge, at the frontier between accounting and enterprise governance, is only in an embryo stage. Thus, from a historical point of view, there comes the question of how and in what context the connection between accounting and enterprise governance appeared and developed. How do the actors involved in the mechanisms of enterprise governance really act, when resorting to the accounting data (audit committee, risk management committee etc.) ? What role do the accounting and the accountant play within these mechanisms? How does the connection between accounting and governance materialize in organizations from the point of view of regulation/control? Which is the impact of regulation in terms of governance within the audit committees? How does regulation translate in terms of governance in a day-to-day basis – be it about the accounting cabinets, or the audit committees? Is there a difference between norms and concrete practices on the field?

As an object of study, the accounting-governance axis is much too rich and complex to be examined from only the disciplinary point of view, as the « real situation » is much too complex, ambiguous, contradictory and unstable to be treated from a single viewpoint.

#### **Bibliographic References:**

1. Dana R. Hermanson, Larry E. Rittenberg (2003) *Internal Audit and Organizational Governance*”, The Institute of Internal Auditors Research Foundation.
2. Fraser, I., W. Henry, and P. Wallage, (2000) *The Future of Corporate Governance: Insights from the Netherlands*”, Edinburgh, Scotland: The Institute of Chartered Accountants of Scotland.
3. Monks, R., N. Minow, (2001) “*Corporate Governance*”, Second Edition, (Malden, MA: Blackwell Publishers, 2001), pag. 185.
4. M. Ghiță, M. Sprânceană (2009) „*Auditul intern și guvernarea corporativă*”, Editura Tipo Moldova, Iași.
5. McMullen, D.A., (1996), “*Audit Committee Performance: An Investigation of the Consequences Associated with Audit Committees,*” *Auditing: A Journal of Practice & Theory* 15 (Spring): pag. 87-103.

6. N.Minow Monks R. (2001) "*Corporate Governance*": Second Edition (Malden, MA: Blackwell Publishers, 2001), pag. 185.
7. National Association of Corporate Directors (NACD), (1996) "*The Role of the Board in the Public Company*", Washington, DC., NACD.