IMPROVING CORPORATE GOVERNANCE IN EMERGING ECONOMIES – AN ANALYSIS OF THE IMPLICATIONS ON THE ACCOUNTANTS' ROLES AND COMPETENCIES60

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Corporate governance became in the last decade an important domain of reforms in emerging economies. The reforms in the corporate governance models and in accounting should assign a more important role for accountants. The objective of this paper is to analyze the changes in the accountants' roles and competencies as a result of the reforms in corporate governance model of an emerging economy. We focus on a single-country case study, i.e. Romania, because it is acknowledged that each country is characterized by a unique set of institutional factors. We correlate information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies. Our results contribute to the understanding of the factors related to the modernization of the accounting profession in emerging economies, illustrating the challenges associated with the "import" of Western models.
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1. INTRODUCTION

Corporate governance, as a mechanism of increasing the accountability and responsibility of organizations (Christopher, 2010: 683-695), became in the last decade an important domain of reforms in emerging economies. The economic importance of these countries for the global economy raised the importance of improving the organizations' management and responsibility. Corporate governance codes were implemented, especially as a result of strategies, recommendations and support of international organizations, such as OECD, World Bank or International Monetary Fund (Vurro and Perrini, 2011: 459-474). These programs conducted to the modernization of corporate governance and accounting in emerging economies by the adoption or adaption of Western models. In this context, Ezzamel and Xiao (2011: 625-637) raised a number of fundamental research questions, one of which being how managers and accountants in emerging economies embrace Western ideas.

It is acknowledged that in emerging economies the role of accounting and accountants is undervalued. For example, during the communism the role of accountants was limited to bookkeeping, and this role assigned to accounting was difficult to be changed after the fall of communism. Accounting should evolve in these countries from bookkeeping to fulfilling the users' needs, both internal and external (Anderson and Lanen, 1999: 379-412). The reforms in the corporate governance models and in accounting assign a more important role for accountants.

The objective of this paper is to analyze the changes in the accountants' roles and competencies as a result of the reforms in corporate governance model of an emerging economy. We focus on a single-country case study, because it is acknowledged that each country is characterized by a

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unique set of institutional factors, such as the complexity and structure of the business environment, the efficiency of the capital market, the competencies of the accounting profession, the culture, law system and management practices (Peters et al., 2011: 429-445). We correlate information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies.

Our results contribute to the understanding of the factors related to the modernization of the accounting profession in emerging economies, illustrating the challenges associated with the "import" of Western models. After a literature review on corporate governance and accountant's roles and competencies, we present the methodology, results and implications of our research.

2. LITERATURE REVIEW

2.1 CORPORATE GOVERNANCE

The interest in corporate governance increased in recent years, and it is advanced that the economic crisis will further raise the interest in governance (Christopher, 2010: 683-695). CG is understood as the general set of principles underlying the manner in which an organization is managed and is accountable to the stakeholders. Corporate governance has been explained initially by the agency theory, but recently the legitimacy theory, the institutional theory, or the stakeholder theory (Perrault Crawford and Clark Williams, 2010: 512 – 526; Vurro and Perrini, 2011: 459-474) are also advanced as justifying and influencing CG practices. Previous literature in emerging economies documents the variety of practices (Boytsun et al., 2011: 41-60). Because observing CG practices is difficult, many studies use the CG disclosures as an indicator of these practices. Generally it is noticed that emerging economies have a reduced level of disclosures (see for example ISAR, 2008), this being an indication of the underdevelopment of the CG practices. However, improvements were been made in recent years in emerging economies.

After the fall of communism in 1989, Romania engaged in drastic reforms, which also affected accounting. The corporate governance became relatively late a part of this reform. But on the other hand, Romania is presented in literature as developing one of the first corporate governance codes in the CEE region (Przybyłowski et al., 2011: 77-98). A program of developing CG practice was established in 2001, when OECD elaborated a strategy including recommendations and guidelines. BSE has accordingly adopted a Corporate Governance Code in the same year (2001). A new and improved Code was issued in 2008 and is applied starting 2010 by listed companies. Răileanu et al. (2011: 11-15) analyze the information included in the Annual reports of the entities listed on the BSE in order to discuss the corporate governance practices. They consider that Romanian managers have less incentive to fulfill the provisions related to transparency. Gîrbină et al. (2012) also find a reduced level of disclosure and advance several reasons for this, of which one being the attitude and competencies of managers and accountants.

In the next section we discuss the roles and competencies of accountants.

2.2 ACCOUNTANTS' ROLES AND COMPETENCIES

A competency is defined as a specific behavior whereby a professional applies knowledge, skills, and professional values in a work environment, and this behavior can be defined, demonstrated and assessed. A competency group represents the major responsibility areas in the professional practice (CGA, 2009). Literature reports that the accountant's role in organizations changed over the last decades because of the changes in the global business environment, such as the globalization, the IT developments, or the stakeholders' expectations. The accountant transformed from a 'bookkeeper' and a 'number cruncher' into a business analyst, a partner in decision making, a consultant, a 'knowledge worker' (Gammie et al., 2002: 63-78).

In a literature review on the changes in the accountants' roles, Albu et al. (2011a: 153-182.) synthesize the position of different associations of accounting professionals. The authors use IFAC (2002) which identifies some directions of evolution through interviews conducted with professionals: managing the information flow, supporting strategic changes, and developing and sustaining the organization's vision. Also, they use ICAA (2004) which identifies three types of contributions that future accounting may have: compliance (through audit, communication, forecasting, IFRS), strategic and commercial (business plans, managing costs) and people-related (manage relationships, lead, provide support). Albu et al. (2011a: 153-182.) concludes that in literature these transformations are closely related to the orientation towards CG and corporate social responsibility practices. This is seen as an enrichment of the previous responsibilities of accountants, because besides the core areas of action, they have to expand such issues as corporate governance, risk management, and strategic management.

IFAC underlines the importance of accountants in improving governance in organizations, stating that the accepted responsibility to act in the public interest is an important element of good governance (IFAC, 2009). Ramaswamy (2005) identifies the following areas in which the accountants have to play a role in the context of strengthening CG practices: formulating and applying a comprehensive governance policy, establishing an efficient control system and preventing fraud, creating a positive work environment, establishing effective lines of communication, monitoring activity and reformulating governance policies.

Based on this literature review, we conclude that with the increasing importance attached to CG, the accounting profession has to change. Accountants have to play a crucial role in organizations in areas such as reporting, transparency, ethics, legal compliance, communication with stakeholders, and resource consumption. This implies that the reforms in CG in Romania have to lead to improvements in the roles and competencies of accountants.

Previous studies on Romania indicate a reduced level of adoption of management accounting practices and an increased role of taxation (Albu et al., 2011a: 153-182; Glăvan et al., 2007: 103-115), thus suggesting a reduced level of accountability. On the other hand, these studies indicate that it seems to be a difference in the role and competencies of accountants between large entities and the smaller ones, between the entities with Romanian and foreign capital. Our aim is to analyze the accountants' roles and competencies in association with the improvements in CG. The next section presents the research methodology employed in this respect.

3. METHODOLOGY

Data collection is one of the major issues in doing research in emerging economies (Hopper et al., 2009: 469-514). Accordingly, researchers search for alternative methods to collect data. In this research, we used two types of publicly-available data, with relevance for accountants' competencies and roles. We use the CG disclosures of first iter listed entities on the Bucharest Stock Exchange. We also use job offer announcements as indicators of accounting practices, because they describe the roles and competencies of accountants. 200 job offer announcements classified in the "finance and accounting domain" were collected in 2010 and 2011 (100 in each year) by monitoring the most representative job advertising national websites. A content analysis was performed in order to identify the roles and competencies and to relate them to corporate governance.

4. RESULTS

As previously mentioned, Romania undergone a number of reforms in accounting and more recently in corporate governance, with impact on accountants' work. The Directive 2003/51 (the 'Modernisation Directive') amended the Accounting Directives and added that European companies are required to include non-financial information in their annual and consolidated reports if it is necessary for an understanding of the company's development, performance or

position. Another amendment of the Accounting Directives (Directive 2006/46) introduced an obligation for listed companies to include a corporate governance statement in their annual report. Both directives were implemented in Romania. Listed companies begin to publish "comply or explain" statements related to the application of best practices in CG. ISAR (Intergovernmental Working Group of Experts on International Standards of Accounting developed a list of 53 items related to CG grouped into 5 categories (ISAR, 2008): (1) financial transparency, (2) board and management structure and process, (3) ownership structure and exercise of control rights, (4) corporate responsibility and compliance (CSR), and (5) auditing. Of the 53 items included in the ISAR benchmark, Romanian entities listed on the first tier of the BSE disclose between 8 and 34, with a median of 24, which we interpret to be a rather low level of disclosure. The results also indicate variations between entities in terms of the level of disclosures and in terms of the information's category. Managers are inclined to disclose less information on auditing and CSR than on other CG items. In relation with the 5 categories described by ISAR, the role of accountants in business is important especially in two areas: financial transparency and corporate responsibility and compliance. We will correlate for each of these domains the data obtained by analyzing the disclosures and the job offer announcements in order to identify the implications on the Romanian accountants' roles and competencies.

4.1 FINANCIAL TRANSPARENCY AND IFRS

Financial transparency concerns the disclosure of financial and operating results, critical accounting estimates, and related-party transactions. In our sample of companies listed in the first tier, 53.84% published financial statements in compliance with IFRS. Noncompliance cases were identified, meaning cases in which consolidated financial statements are published under the national regulations and not under IFRS. One company claimed compliance with both national regulations and IFRS for the same set of financial statements. This situation raises questions about the competencies of accountants in IFRS. EUO no 90/2008 implementing Statutory Audit Directive introduced the requirement for public interest entities to establish an audit committee with at least one independent member with competencies in accounting and/or auditing. We found that 36% from the first tier listed companies did not set an audit committee.

Our job offer analysis for 2010 and 2011 also indicated a moderate level of requested IFRS competencies. 24% of job offers in 2010 and 28% in 2011 require competencies in IFRS. While IFRS is seen as a framework providing better information for users, these results may surprise. On the other hand, there is a reduced level of the application of IFRS by Romanian entities. Besides the listed entities (which do not comply all of them with the request to apply IFRS), some other entities use IFRS in a second set of financial statements, as a results of the users' pressures. Therefore, we might imply that the level of the IFRS competencies required depends on the entity's characteristics: larger entities, with foreign capital and/or foreign managers, and entities having demanding users are more inclined to apply IFRS, and therefore to request IFRS competencies to their accountants.

4.2 CORPORATE SOCIAL RESPONSIBILITY

The CG disclosures on CSR indicate that the majority (73%) of our entities disclosed that they have a policy and specific activities in connection with environmental and social responsibility. But the number of pages allocated to CSR activities in their annual reports was very small (0 to 3). One company from the sample presented a CSR report, another company has a web page dedicated to CSR policy, CSR actions and a prize obtained for its eco-friendly practices. The reduced level of disclosures might indicate a reduced level of CSR practices by Romanian entities. It is consistent with previous studies realized by KPMG (2008, 2011) indicating an increasing, but still low level of disclosure and assurance on CSR issues.

The content analysis of the job offer announcement indicate some references to area generally related to CSR such as risk management, performance management and use of non-financial information. However, as regards the specific areas of CSR, such as environmental and social reporting, evaluation of CSR impact and compliance with environmental and social regulations, our textual analysis of the advertisements shows a lower occurrence in the competencies and task required from Romanian accountants. These results are in line with Albu et al. (2011b) which for the years 2007, 2008 and 2009 indicate an implication of accountants in transposing the general framework of CSR, which is legal compliance, communication with stakeholders and performance measurement, thus leading to an increase in the importance of the accounting function in organization. Our results for 2010 and 2011 indicate the same trend, accountants being required to analyze social information, to elaborate strategies for the environmental and social implications of the business, and to deal with tax issues related to environment laws.

5. CONCLUSION

The purpose of our study was to analyze the changes in the accountants' roles and competencies as a result of the reforms in corporate governance model of an emerging economy, i.e. Romania. If during the communism, accounting was reduced to bookkeeping, it is expected that the reforms in accounting and corporate governance changed the accountant's role. Our study continues and complements the results of other studies on the case of Romania (Albu et al., 2011a: 153-182., b: 221 – 234; Gîrbină et al., 2012). We correlated information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies.

We focused our analysis on two areas of CG elements close related to accountants work: financial transparency and corporate responsibility and compliance. Our results indicate a better disclosure of the financial results than in the case of CSR. We pursued the investigation by analyzing the competencies required in job offers announcements. Besides the core technical competencies related to these areas, literature documents that other related competencies (such as personal, ethics, leadership, communication) are related to good CG practices. The content analysis of job offer announcements indicate a reduced but increasing demand of competencies related to IFRS and even lower demand for CSR. However, we confirm that job offer announcements requiring technical competencies in these areas also requested the complementary competencies associated in literature to good CG practices. These results indicate a slow improvement in the role of accountants in Romania. The reforms in CG (at a legislative level) are important, but in order to have good CG practices, improvements in the business environment and in the accountants' and managers' education are necessary.

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