OBJECTIVES AND PARTICULARITIES OF DECISIONS IN THE CONTEXT OF CORPORATE GOVERNANCE

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ABSTRACT: Corporate governance means the overall driving of the entire organization by accepting all internal components, which work together, which eventually will be integrated in the management, and implemented to the risk management within the organization and financial management system and internal control, including internal audit. At this time of globalization and harmonization, the accounting profession acts for the image that it deserves, fulfilling a critical role. Harmonization, convergence of accounting systems in service, currently must be made by the most trained professionals, under conditions of total transparency. Presently, the global economy, the influx of investment and cross-border operations in particular of the large enterprise groups exert a strong influence on the accounting profession.

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Introduction

The objectives and significance of corporate governance subscribe as recently economic-organizational phenomenon. In almost all countries are concerns and direct action aimed at protecting shareholders, the balance of power within the governing bodies of companies, establishment and, where appropriate, extending the powers of statutory audit and audit committee formation, organization of internal control, understanding the significance of transparency and quality of financial information.

Corporate governance is a highly-publicized phenomenon in recent years and it refers to transparency of transactions and monitoring the internal control system to ensure its ability to assess the potential risks, which to give extra safety to the management of organizations to implement the established strategies. In conditions which the economic units in Romania are facing with the problem of deep failures of own funding sources in order to engage in effective processes for obtaining the value, the last ensuring them a financial potential of their extensive reproduction, external funding becomes of an major importance.

Many researches on the behaviour of institutional and private investors in emerging markets, identified, however, that 80% of investors agree to pay extra for the shares of the enterprises with an effective system of corporate governance. For the corporate governance to influence positively the market value of the company, two conditions must be met:

- *First*, corporate governance should help increase the revenues of company's shareholders, and

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- *Secondly*, financial market must be sufficiently effective, because the share price to adequately reflect the performance indicators recorded by the firm. These conditions are respected more frequently in countries with developed financial markets.

A study published in February 2000 by SG Emerging Funds Equity Research *(The Straight and the Narrow –Standards of Corporate Governance*) shows that Romania occupied then the 7th place of 10, regarding the application of corporate governance practices in emerging economies that have been studied, strictly on the behaviour of organizations with the best practices existing at the time, with a score of 20.6 points from 36 possible. In achieving this ranking have been considered the following criteria: proper conduct of shareholders meetings, efficiency in stopping the transactions based on information from privileged sources, publication of managers' transactions, announcement of all changes in capital on time, concluding of extraordinary transactions at transparent prices, regular publication of financial results, independent audit, equal access to information for all shareholders, free and open access to information regarding ownership structure, the role of the Board of Directors, effective protection of shareholder rights by justice, quality of ownership access to the society.

Another study by Ernst & Young Centre for Business and Innovation in 2004 reveals that in Western Europe, 56% of investors attach equal or additional importance to information regarding corporate governance and to the ones of financial nature. Most investors are willing to pay a premium for companies that apply corporate governance standards. This additional cost is of 12-14% in the U.S.A. and Western Europe. In Asia and Latin America is of 20-25% and in South-East Europe and Africa is recorded a maximum value of 30% of market capitalization.

Particularities of decision making in corporate governance

Any economic entity has a fundamental goal which constitutes the motivation of conduct its entire business. In most cases, the fundamental objective is profit maximization. In addition, can show up and other general goals, such as: survival, economic growth, optimization of relationships between participants in the business entity, etc. Also, every organization has some financial objectives: financial balance, financial return, increase of efficiency in the use of production factors and others.

For decision making by the management team in order of objective realisation of the unit is necessary to know its exact situation. Managers, concerned with knowledge of the actual situation of the unit, seek to answer the following questions:

- *The enterprise is viable?* The balance allows assessment of return if proceeds to a structuring of asset after the increasing liquidity criteria and to a ranking of the liabilities on the increasing chargeability criteria. This traditional optic of heritage, of the company's solvency tends to be replaced by another, based on a functional structure of the balance sheet and the use of the financing table.
- *Which are the performances of the company?* To assess the performances obtained by a business must compare the means used with performances. This is highlighted by the outcome indicators, particularly by the intermediate management balances.
- *Which is its development status?* Need to know haw much increased the business in the reporting period.
- *Which are the risks that are subject the entity?* Is about to see which is the risk of bankruptcy, following the cessation of payments for example or the risk of interruption of supplies, the risk of narrowing or loss of markets, etc.

Obtaining an answer to these questions and of course to other related to organization that interests them, managers are able to make a statement about the future of the organization that they lead and take a decision. But is made the question about the quality of information based on which the manager will decide.

Decision comprises five main issues that relate to the ability of organizations to compete:

1. *To be sustainable.* The decision must provide a change that persists over time. For long-term survival of the organization is important for the strategy to be sustainable.
2. *To be different.* It must be differentiated from competitors, through its inventive spirit. A sustainable strategy is more feasible if it is distinguished from actual or potential competitors.
3. *To provide a competitive advantage.* It must be not only distinct, but represent a real advantage that would allow the organization to move forward. Corporate Strategy takes place, usually, in a competitive environment.
4. *To exploit links between the organization and its environment.* The strategy is going to exploit many links that exist between the organization and its environment: suppliers, customers, competitors, and often, the government itself through its institutions.
5. *To be visionary.* It must possess the ability to propel substantially the organization forward, beyond the current environment. This involves the application of innovative strategies.

In addition to balancing short and long-term interests, the management also must find a balance between objectives. *What is more important: a growing market share and sales volume or a higher rate of return? How much time, effort and energy should be consumed to improve the productivity? If the same effort and same amount of money would be invested in designing / creating a new product, would generate a higher return?*

There are few criteria that can distinguish a responsible management of one incompetent, as obvious as the performance in balancing the objectives. Every entity needs a proper balance and adjusted to the moment. The only thing that can be said is that balancing the objectives is not a mechanical task and is not operated by the budget. The budget is the document, in which the balancing decision has its final expression; but the decisions itself require reasoning; and reasoning will be solid only if will rely on a thorough analysis of the company. The management's capacity to fit within the budget is often considered as a sample of its competence. But the effort to reach the budget harmonizing best the conflicting needs of the enterprise is a more important test of management competence. The objectives from key areas are the control panel needed to operate the enterprise, without these management moves "by heart", without benchmarks to guide, without maps and without ever travelling this way.

Influences and implications of corporate governance on financial - accounting decisions

Development of groups of companies has changed the perception of competition. *"Globalized world aspire to turn all friends and enemies into competitors"* (Joseph E. Stiglitz, 2003). The technological revolution has led multinational companies to form strategic partnerships to have more flexibility in action and decisions and to reduce risks and costs of production. In the main sectors of industry have appeared oligopolies having at the base strategic partnerships in research, collaboration in managing new information provided by scientific and technical progress, greater efforts to maintain competitive advantages and to attract other market segments. We are witnessing a restructuring of companies by increasing the number of acquisitions and mergers; concentration of capital is accomplishing both at national and international levels, characteristic of globalizing economy stages.

To properly assess the financial position and results of the group should be established and presentation of group accounts (consolidated accounts). Following the accounting consolidation techniques are obtained information necessary to their management needs, and external users. Depending on the nature of information and its users, in the accounting literature there are several approaches regarding consolidation:

- Owner approach, *property concept*;
- Financial approach, *parent company concept*;
- Joint approach: financial and economic, *parent company extension concept;*
- Economic entity approach, *entity concept.*

1. According to the *first approach*, the beneficiaries of information are owners of parent company in the desire to know what you own and what debts they have. Applying this theory provides unreal information, irrespective of minority interests. Ownership principle is respected, but is ignored the reality check.
2. *Financial approach* (of the parent company) is determined by the emergence of holding companies and is aimed at providing information to the controlling shareholders (*eg. the value of shares held by them*). Compared with the first approach, there the minority interests are in balance, as liabilities, and from the profit and loss account are deducted before determining the net income.
3. *The third approach* has as recipients of information all major shareholders, however the minority, will occupy a special place in the balance: between equity and debt.
4. *Economic entity approach* considers the group as a whole. Such shareholders are divided into majority and minority having the same importance. Minority interests are elements of equity, and the result is divided according to the contribution of the parent company and subsidiaries.

The information provided by the consolidated accounts:

- form the basis for projections, establishment of a diagnosis, setting goals, assessing progress and profitability of subsidiaries of the group. To summarize the information on a group level is necessary to have a controlled and regulated information circuit;
- provide useful information to external beneficiaries (creditors, members, financial analysts, personnel, etc.) regarding the importance, size, potential of the group.

Multinational companies, because of the fact that financial statements of the companies within the group are denominated in various currencies, are obliged that, for preparing and presenting the financial statements, to take the following steps (M. Secarin, 2001), presented in the table below:

Table no. 1

Steps to follow for multinational companies in developing the consolidated financial statements

Stage	Description of the stage	Result
1. Conversion transactions made in foreign currency	Each company makes operations conducted in foreign currency, in their own currency	Each company has financial reports expressed in local currency
2. Conversion of financial statements denominated in foreign currency	Each branch makes its financial reports in the currency of the parent company (consolidation currency)	All entities from the consolidation perimeter have financial reports in the currency of the parent company (consolidation currency)
3. Consolidation	The financial statements of the group's member companies are consolidated	Obtaining consolidated financial statements

Source: M. Secarin, 2001

Currently the sector information, due to globalization of markets and activities development of multinational companies, have become indispensable, representing an important element in assessing risks and opportunities specific to different geographical areas and sectors of activities. Each organization implementing *IFRS 8 - Operating Segments*, the latest from the first day of the financial year 2009, according to Regulation (CE) no. 1358/2007 amending Regulation (CE) no. 1725/2003 of adopting certain international accounting standards. The basic principle consists of the obligation of the entities to provide information to enable those who consult its financial statements to assess the financial nature and effects of commercial activities in which is involved and the economic environment in which they operate.

Sector information enjoys a growing interest from the creditors and analysts because of the fact that it allows assessment of the development strategy and development of group results with multiple activities, providing support to cross-sector comparisons at international level.

Information should be prepared, audited and disseminated in accordance with the highest quality standards: accounting, financial and non-financial reporting and auditing. Development of the concept of risk management at organisations' level by implementing specific working procedures of each department, supporting systems of internal control and internal audit will ensure the identification and control of risks facing the entity, in order to achieve the objectives. Annually shall be implemented the audit by an independent auditor, to provide an objective and neutral security on financial balance sheets which were prepared and presented by the company. Channels for disseminating information assure, in this way, correct and timely access and in efficient conditions of user to relevant information.

Conclusions

In conclusion, the importance of corporate governance has become evident in 2002 when a series of crashes of corporate, fraud and other economic disasters have led to losses of billions of dollars for investors, firing thousands of people and a record number of bankruptcies. Seven of the 12 largest bankruptcies in U.S.A. history occurred in 2002 (Monks Robert, Minowa Nell, 2002).

Consequently, corporate governance has become a topic of wide interest, and Sarbanes-Oxley Act was approved quickly by the American Congress, and the SEC (U.S. Securities and Exchange Commission) has made intensive efforts to implement it as soon as possible (similar laws come into force also in other continents).

Credit rating agencies like Moody's and Standard & Poor's, which gave signals expected in the market regarding the bankrupt companies, announced their intention to include corporate governance as a factor in future tests. Therefore, corporate governance will be understood as the element of *risk* - the risk for investors, whose interests might be betrayed by inefficient or corrupt managers and administrators, risk for employees, for creditors and customers. Corporate governance delineates good choices from the bad ones, constituting in a structure designed to ensure that relevant questions are put at the right time, and that controls exist and operate to ensure long term value creation.

OECD (Organization for Economic Co-operation and Development), in "*Principles of Corporate Governance*" in 1999, defined corporate governance as "*the system by which corporations are managed and controlled*". To this sense, each organization must determine how to govern their information and technology infrastructure on which is based the business strategy.

Even before the recent changes in corporate governance guidelines, a number of finance executives, studied in a study by Griffiths (1999), have already recognized the key challenge for internal audit to drive the agenda of corporate governance, which provides an opportunity for them to directly support the requirements and responsibilities of senior management in this regard. A more recent study, by Page and Spira (2004), concludes that in general internal auditors see corporate governance guidelines - such as, for example, the first UK Turnbull Report (1999) - as beneficial to their cause, and reported that internal auditors claim that these guidelines have helped to change perceptions of internal audit in a positive way, so that operating departments often have requested the advice of internal audit, when implementing new or modified processes. In addition, Goodwin-Stewart and Kent (2006) have found evidence that companies with an integrated risk management frame are more likely to use internal audit. In addition, their study confirms that internal audit is complementary to other risk management mechanisms, such as a designated risk manager.

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