

ACCOUNTING MODERNIZATION – PREMISE OF AN EFFECTIVE GOVERNANCE SYSTEM OF ENTERPRISE

MIHAELA UNGUREANU

“ALEXANDRU IOAN CUZA” UNIVERSITY OF IASI

myhaella5@gmail.com

Abstract:

Value of company is maximizing insofar as can be identified and harmonized conflicts of interest between social partners of the firm, particularly between shareholders and managers. Harmonization of these interests is ensured by the corporate governance system. Accounting is the economical information system most appropriate for the governance needs. Under the current conditions, information is relevant not only by accuracy, but especially by its obtaining speed, since information achieved after the time it is needed, is not important anymore. This paper aims to show which are the main ways of accounting modernization to meet the demands of an effective governance, in the current business environment.

Keywords: *leading, corporate governance, management control, integrated accounting*

JEL Classification: M10, M41, O33

INTRODUCTION

Under the competitive pressure, it is important that the enterprise to be as efficient, bringing on the market suitable and reliable products at competitive prices. If the overall performance of an enterprise depends on external events, it is also influenced by the harmony between the different functions that compose it, their complementarities and the commitment of staff designated to serve it.

Leadership has an essential role in relation with different levels of operational structure. The manager is an operational responsible, daily faced with difficulties of enterprise's specialization, in which is directly involved, assuming responsibility for its performance. For carrying out the tasks, he has human resources and relies on the entity's general organization perfected by management. By definition, the manager is a professional able to use the means provided in the conditions of autonomy. Provided through management control, measurement of performance leads to an assumption of administration, its propose being the continually improvement of enterprise results.

Continuously expanding globalization, internationalization of markets and economic activities are making of strategic decisions a real challenge for for the purpose of a more efficient corporate governance systems and, by consequence, to measure the organizational performances. These performances are not reffering only at the financial results, but also at the non-financial issues of social and environmental activities. Accounting is becoming more integral part of corporate governance, the information that it provides being an essential condition for improvement of decisions about company's overall performances. The accounting profession is faced with new demands determined by globalization, by increasing role and responsibility of the professional accountant in enterprise's governance and by the fact that today is increasingly talking about accounting as a “language of business”.

1. CONCEPT OF LEADING FACED TO THE NEW ECONOMIC AND SOCIAL DEMANDS

How an organization is managed and controlled, respectively all principles, rules and regulations that ensure its administration by the managers, defines corporate governance system. Through it is seeking of the company's overall performance based on the theory of interest holders. Maximizing enterprise value depends on the extent to which managers are able to identify and harmonize conflicts of interest between social partners of the firm. Harmonization of these interests is ensured by an efficient system of corporate governance.

Leaders who learn to work with other corporations, with government agencies and social sector organizations will discover a new impact and a new meaning in their organization's work. However, in conducting an efficient partnership, leaders will need to master three imperatives: to lead for a mission, for innovation and for diversity.

Leading for a mission, firstly means understanding the mission for developing an efficient corporate strategy, regardless of size or importance of the entity. An exciting and convincing mission will give to people clearly and motivated explanation of their organization's existence. Maximizing the value offered to shareholders is no longer the ultimate purpose of corporate governance. This idea, released by Milton Friedman in the 70s may not be valid today, under globalization, internationalization and expansion of concerns for sustainable development and social cohesion. A system of governance that seeks only its own benefits, obtained in an easily and immediately way, do not characterizes the business environment growth, given those economic operators with short term profitable activity, but without a long term horizon market.

Leading for innovation is the second criteria to be followed. Peter Drucker defines innovation as "the change that creates a new dimension of performance". Innovation may interfere in structuring and organizing the entity, in its leading system, in managing and using human resources, so that it becomes a natural part of culture, work and mentality, of what might be called the new dimension of performance. Equally important is to consider what Drucker calls "planned abandon", which means giving up strategies that can give results on short term, but which lose their relevance in future.

Leading for diversity is the concept the recognizes that are profound differences between people, caused by age, environment of provenance, family, community in which they are formed and belonging. Any organization, no matter how efficient may be its governance system will not be able to form some ideal employees after a certain pattern however higher would be its standards. What makes economic entities activities, business environment generally, to be so complex and difficult at the same time, it is precisely human footprint that occurs. Employees of organizations are characterized by their experiences, tacit knowledge that they should have to share, so those to become collective knowledge. A company, regardless of size or main activity is a social sector, in which people must learn from each other to ensure its success, which will be reflected then in business environment sustainability at regional or national level. Manager is required to predict or identify key issues within the organization to solve them involving all stakeholders.

2. PRINCIPLES AND ROLE OF MANAGEMENT CONTROL INTO CORPORATE GOVERNANCE

As a management tool, the management control lies at a distinct level of hierarchy, namely within financial direction, being the guarantor of economic and financial balances. Leading an enterprise requires a set of reliable and correlated

financial and accounting indicators. Management control is present at each stage of selection, design, setting strategies, assumptions, activities and the stage of evaluation and simulation of selected strategies. Its role is to identify the weak or non-performance production and provide corrections.

Founding principles of management control are:

- principle of responsibility (delegation), respectively receiving responsibility from a superior; delegation means control, responsibility implies justification;
- principle of controllability of performances assigned to respective structure;
- principle of exhaustiveness is considering to reduce the risk of diminishing expected performances by assigning to each balance sheet item and income statement of a responsibility center.

The role of management control involves:

- monitoring performance (efficiency and effectiveness), by which it seeks management organization on divisions of work and behavior orientation, management control having here two functions: to inform policy makers and to adjust actors' behavior;
- monitoring change, which pursues a new strategy for adapting to the realities of the economic environment by operational improvements and for a continuous progress by setting successive targets.

Management control ensures consistency between strategic objectives and operational decisions. To develop a system of management control, managers use various instruments of information that can guide the decision: information about their plans on medium and long term, economic studies, extracontabile statistics, financial accounting and financial analysis, management accounting, dashboards, system budgets.

3. INTEGRATED ACCOUNTING: A PERFORMANT MANAGEMENT TOOL

Accounting modern tools and techniques present managerial information in legible and suggestive forms, that generates positive effects on decision makers.

Firstly, through these tools information is operatively distributed to all users. The manager can order such reliable information, in accordance with accounting rules and internal management rules based on who makes the necessary corrections. Through self control takes place a substantial increase in the quality of information.

Secondly, integrated tools are known and followed both by IT specialists and professional accountants, the real producers of financial and accounting information. Modern accounting requires a great flexibility in the informing, necessary to a rapid development in a continuous changing world. This requirement forces accountants to consider primordial meeting objectives of corporate strategy. He must accept the spirit of accounting principles, such as the permanence of methods, prudence and netting.

In these circumstances, is necessary to use a management based on systems that:

- manages costs, but also value, based on some performance indicators;
- is considering change and not stability, continuously rebuilding the standard of performance and permanently replacing a diagnostic service (continuous identification of objectives);
- ensure in a continuously way the adequacy of actions and behaviors to business objectives (monitoring the fulfill strategy into the organization);
- information is shared, respectively used by operators and distributed to various actors of the enterprise.

Managing systems do not meet these conditions spontaneously. They must be designed to satisfy and continually adjust them.

The accounting informational offer has substantially increased, due to advances on computer technology and to those obtained in the accounting profession evolution. Is

mentioned in this context improving competence through mastery of proper methods and techniques.

Information technology has progressed extremely fast in recent years. Hardware and software more and more sophisticated facilitate market competition, because implementing a complex management accounting system is possible today in any organization, regardless of nature and size.

In 1999, Professor J.A. Smith made a study demonstrating the importance of technology in the enterprise accounting system. The study showed that even for a small entity, its performance increases simultaneously with the intensity of new technologies use. The author noted several essential questions that the manager needs to start of when he wants to implement a strategy based on IT: What kind of information I will collect? How should I send information? How can I store information? How I intend to process the information?

New information and communication technologies have enabled the accounting system to operatively adapt at the reflected events. So, have emerged management systems of flow of operations that convey automatically and in real time accounting information characterized by reliability and relevance. Starting from the database, it may be developed accounting and financial indicators, comparative scoreboards and consolidated results after different, multicriteria and multidimensional methods.

Through integration of managerial and accounting data, accountancy has extended its services comparative with other methods and systems. Performance of the financial and accounting function has obviously improved by modernizing work instruments, which allowed obtaining a better quality of accounts and shorten the preparation time.

In this direction, the objective is to prepare at the same time the balance sheet, the income statement by nature of expenditure (financial accounting) and also by function (one of the instruments of management accounting), the financial dashboard and cash flow analysis. This idea is natural, because the accounting model, by its own, allows a documents consistency check.

The data contained by the accounting document have correspondence in different files (customers, suppliers). So, it's available an accounting turned into database. J.C. Dormagen shows that this allows a decentralization of data notification, what gives to the entity a better understanding of operations.

The essence of innovation proposed by J.C. Dormagen through integrated accounting is represented by adding to the traditional schemes of a third dimension that is the object of transaction and notion of junction account, which allows gear transactions in successive phases.

Currently, there are three IT systems that influence the value chain management.

A. Enterprise Resource Planning (ERP)

Integrates internal and external management information across the organization, finance, accounting, production, sales, etc. ERP systems automates these activities through an integrated software. Their purpose is to facilitate the flow of information between all internal functions of the entity and to manage connections to external stakeholders. They can run on a variety of hardware and network configurations, usually using a database and have the following features:

- works in real time without being dependent on periodic updates;
- have a common database, supporting all applications;
- takes a brief look on each module;
- installation of system is done without a data integration by the IT department.

In 1990, Gartner Group has implemented the first acronym ERP, as an extension of material requirements planning (MRP), manufacturing resource planning and development of integrated programs. Not all ERP packages have been developed from a manufacturing base. Sellers have started from accounting, maintenance and human resources. By the mid 1990s, ERP systems have been already addressed to all the basic functions of enterprise. Beyond corporations, governments and nonprofit organizations have also begun to use them. Year 2000 and adopting the euro have caused a disturbance of old systems and large companies have used this opportunity to replace such systems with ERP. Implementation of ERP's is much more difficult in decentralized organizations, because they have various processes, business rules, semantic data, hierarchies and decision centers authorized. Setting up such a system is largely a matter of equilibration of how the client wants it to function and the way it was designed to work.

The systems are designed on several parameters that modify their function. For example, an organization can select the desired type of inventory – FIFO or LIFO – if it wants to find revenue by geographical unit, product line or distribution channel and whether to pay for transportation costs when a customer returns an order. Many organizations do not have sufficient internal skills to implement an ERP by making calls to an outside consultants team, including for vendor selection, planning, training, configuration / customization, testing, implementation and delivery.

B. Supply Chain Management (SCM)

Represents managing a network of interconnected companies involved in providing product and service packages required by end users. The system includes movement and storage of raw materials, inventory process and finished goods from point of departure to point of consumption (supply chain).

Through it is performed a strategic and systemic coordination of traditional business functions and tactics used within the enterprise, especially in the supply chain to improve long term performance of each entity and throughout the whole chain. The system is an inter-function approach that includes managing the movement of raw materials within an organization, certain aspects of the internal processing of materials into finished goods and their movement from entity to the final consumer.

Organizations that make efforts to focus on basic skills and to become more flexible, reduce ownership for raw materials sources and distribution channels. These functions are increasingly outsourced to other entities that may perform the activities better or with lower costs. A less control and more partners in the supply chain had as result the concepts of this system. The purpose is to increase trust and to improve cooperation between partners of supply chain, stocks visibility and movement speed.

C. Customer Relationship Management (CRM)

Constitutes a strategy widely used in managing interactions between entity and consumers, customers and sale perspectives. The general objectives are to identify, attract and gain new customers, preserve the existing ones and reduce marketing costs. Instruments and workflows can be complex, especially for large companies, after previously were limited to monitoring and recording interactions and communications. Software solutions in use today seek to obtain contracts, parts of the market opportunities and additional sales channels.

Most of the times, implementing such a system has isolated initiatives according to the needs of each department. Systems that start in a divided way have as result that decision-making processes tend to separate into incompatible and dysfunctional components.

CONCLUSIONS

An ideal leading system is the one pursuing overall performance of the company and not only the financial one. An effective corporate governance is one that turns its ideas and perspectives beyond the perimeter of an entity in order to contribute to a strong and diverse community, being already demonstrated that none economic activity can be long term productive, unless it is taken into account the social component that can provide significant benefits, short term characterized by healthy labor force, attracting important clientele, improving public image, and all these lead, in long term, to economic and financial benefits, especially by maintaining market competitiveness.

In the globalization context, when everything gets a higher speed and access to information must be made in real time, an organization that does not meet the current requirements of modernization, has no chance to remain competitive or gain in performance in a changing business environment.

Access to information is achieved mainly through the accounts, so the answer to the entity modernization need is integrated accounting. Implementation of new information and communication technologies is the premise of an efficient leading of an entity, manager having at its disposal, any time, the necessary information to make the best decisions on economic, social and environmental activities of the organization he leads.

Marketing data, for example, is reflected in economical and financial informations provided by accounting, on which can be elaborated the future management strategies. Contemporary manager can not, is no longer allowed to ignore the accounting (financial and managerial) in the leading process. Professional accountant is no more, in the current business environment, only "archivist" of the company, but also the guarantor of the accuracy of provided information, the decision making being strongly influenced by these.

REFERENCES

1. Kaplan, R., Atkinson, A., Young, S., (2011) *Management accounting: Information for Decision Making and Strategy Execution*, U.S: Pearson Education.
2. Monks, R., Minow, N., (2011) *Corporate governance, Fifth edition*, London: Wiley Publishing.
3. Smith, J., (2007) *Handbook of Management Accounting, Fourth edition*, London: CIMA Publishing.
4. Tabără, N., Briciu, S., (2012) *Actualități și perspective în contabilitate și control de gestiune*, Iasi: TipoMoldova.

Aknowledgements:

This work was supported by the the **European Social Fund in Romania**, under the responsibility of the Managing Authority for the Sectoral Operational Programme for **Human Resources Development 2007-2013** [grant POSDRU/CPP 107/DMI 1.5/S/78342].