

# REFLECTIONS ON THE MANAGEMENT OF THE FINANCIAL-ACCOUNTING ACTIVITY IN THE CONTEXT OF INFORMATION SOCIETY AND CHANGE

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## **Abstract:**

*Designed as a social practice, the financial-accounting activity is in the position to treat the product it provides as a compromise between the expectations and demands of the social protagonists, between the demand and offer of accounting information. The management of financial-accounting activity in the company of the future will have to discard of old beliefs, to seek an harmonisation between the demands imposed by legislation and the requirements imposed by the general management, to focus on the performance centres to determine precisely the current profitability and forecast the future one. From this perspective, the paper touches a number of aspects that have an impact on the management of the financial-accounting activity in the context of information society and permanent changes.*

**Key words:** financial-accounting management, change, technologies, governance

**JEL classification:** M40, G39, M10

## **1. The management of the financial-accounting activity in the context of change**

The most significant changes that the organisation will face, in the attempt to adapt to the characteristics of the business environment is outlined as it follows (Corneliu Russu, 2004: 866-868): the increase of dimensional, structural and functional flexibility; geographical dispersion of the company's activities; adoption of appropriate dimension for competitiveness; harmonization of standardization with flexibility; robotization and automation of operations within the company; emphasis of the role of intellectual technologies in the company's management and activity; information digitization; virtuality of phenomena within the company; new types of work and activities specific to the information society; affirming the creative potential; increasing managerial abilities to anticipate the environmental changes; increased cooperation between companies; real time work etc.

“**Think globally, act locally**” has become the favourite slogan for decision factors within companies, at local, regional, national and international state community levels. Most changes are made for the improvement of the companies' performances. Should this statement be one of the factors that led to the reform of accountancy in Romania and not only? The company no longer performs only on the local market. Regardless of its size, the organization is approached in the context of globalization. “Finished products” from one country are becoming increasingly used in other countries, too. The globalization of national economies, the integration of financial markets and of information systems, attracting international capital, knowing the competition implies harmonization of the information provided by the financial-accounting activity of the third millennium company. By developing the International Accounting Standards and, subsequently, the International Financial Reporting Standards, there was intended to define some general rules, as well as specific

approaches, that would allow organizations, regardless of the country, to take informed decisions.

*But what are the implications of changes within organisations on the management of the financial-accounting activity?* First, we believe that change should begin with *culture*. It is impossible to have an efficient financial-accounting management if people's mentality and values are outdated and if they do not accept the new.

The management of the financial-accounting activity should be oriented towards responsibility centres, and, firstly, on the performance centre, as a place that could determine the difference between incomes and expenses, with control over the resulting resources and products. "No matter how much money you have, you must get the expected performance" – could be the slogan for such a centre, and thus for responsible managers. Desired performances are expressed in a level of profit and the use of performance centres raises the issue of correctly calculating a price for the provided products or services. Statements can be elaborated by any performance centre, precisely for determining how each of them contributed to the enrichment or impoverishment of the company.

Another implication is related to *intelligence* and thus to human capital. Being able to draft useful financial-accounting information that meet the imposed quality features and that would lead to the grounding of strategic decisions, requires to attract, develop and maintain a diversified group made up of the best and the most brilliant existing human talents. Human intelligence should, however, be correlated to the artificial one. Therefore, intelligence is no longer to be admired, it has to be implemented and used. The economic entity will be an intelligent one, so that it can cope with the permanent changes, or be reconfigured during these changes. The reconfigurable company needs financial-accounting systems, information structures and planning processes that would allow it to operate as a whole consisting of miniature units of activity.

Faced with the continuously changing economic and social environment, the obsession of the financial-accounting activity is to search, by making reference to the future and examining the future and the present. Such dynamics takes place between empiricism and rational, between technique and conceptualization, between the need for universal and the need for specific, between international and national, between economic and judicial, between pecuniary and social.

## **2. The corporate governance – a new way of leadership**

Corporate governance, as a means of organisation and management of enterprises that pile the road of globalisation is presented in the specialty literature with various definitions, each with a particular accent on one or the other of its significant elements:

- The ways in which providers of financial sources for a company make sure they will also receive the benefits they are expecting when doing this investment;
- All a company's relations with its shareholders, or on a wider perspective, with the entire society;
- It refers to the promotion of fairness, transparency and responsibility at the corporate level (Grațîela Iordache, 2004);

A number of relations between the company's management, the board of directors, its shareholders and other interest groups within the company; the structure through which the company's objectives are established, the means to accomplish these objectives and to monitor performances; the system of incentives granted to the Board of Directors and the management in order to achieve the objectives that are important to

the company and the shareholders and to facilitate monitoring, (OECD *Report on the Corporate Governance in Romania*, December 2001).

In the functional economic systems, corporate governance becomes important in terms of strengthening the control function in the shareholder (principal) – administrator (agent) relation and also in the administrator-creditor relation. Moreover, strengthening the control through management inside the company may also be approached in terms of exercising the control function in the administrator-shareholder relation through the analysis of the bureaucratic structure and the enterprise culture, too (M. Valentin Ionescu, 2005: 1).

**The objectives** of corporate governance refer to (*Implementation Guide of Corporate Governance Code*, March 2010):

- allowing the Board of Directors to provide strategic consultancy for the organisation and monitor the management;
- clarifying the role and responsibilities of the Board's members and the executive management, so that it facilitates their responsibility towards the company and shareholders;
- ensuring a balance of authority, so that one person does not hold unlimited powers;
- necessary, sufficient and useful communication and ongoing between inside members represented by shareholders, members of the board of administration, members of the managing committee, executive managers;
- efficiency and effectiveness of the organisation's activities in achieving the managerial objectives, measured through internal and external quality auditing;
- providing an efficient protection of shareholders' rights;
- performance, by choosing the best decisions by the Board of Directors;
- constantly informing the audience on the company's objectives and financial situation, by respecting the commercial confidentiality;
- taking responsibility for the community and environmental protection.

Corporate governance has *special implications on the management of the financial-accounting activity*. First, we are talking about *the demand for transparency and reporting* which is regarded as the main pillar for talking about actual corporate governance as well as about efficient operation principles of the capital markets. Without access to the information supplied on a regular basis, in real time and trustworthy, investors cannot correctly evaluate the actual situation of the company and also, they cannot take informed decisions, the phenomenon having as main consequences the increase of capital's cost and a more poor resource allocation. Transparency in reporting allows shareholders and the general public to evaluate the management's performances with the influence on their behaviour. Moreover, efficient information systems may shape managers who will have at their disposal more ways to manage efficiently. Finally, transparency and information supply gives the public the opportunity to understand the company's structure, its activities and policies so that it can understand the performances of the business environment and the ethical standards this is based on.

Secondly, we refer to the internal and external audit, but also to the statutory audit. The people involved in these activities play an important part in the management of the financial-accounting activity, being responsible for supervision, control and audit of the undertaken and recorded operations. While the General Assembly of Shareholders works as an instrument for formulating the company's decisions, and the administrators are responsible for their implementation, internal and external auditors have the role of supervising the administrators, to ensure the financial control and verify if it meets the legal requirements. They do not play any part in the decision process,

although, generally, they attend the meetings of the Board of Administration and can express their opinion on the different occurring issues.

Although at a first glance, internal and external auditors may seem to have the potential of providing adequate corporate governance policies, they are actually less efficient in fulfilling their duties because, generally, they use the management's and shareholders' policy.

Given the definitions regarding corporate governance, we consider that it is closely related to the company's management of the financial-accounting activity. In almost all countries there are concerns and actions aiming shareholders' protection, the balance of power within the companies' managerial structures and the establishment of audit committees, the organisation of internal control, and understanding the meaning of transparency and quality of financial information (Alexandru Rusovici, 2004: 61-62). Corporate reporting and corporate governance (David Illingworth, 2003: 60) should be a priority for the Romanian companies also. In a country with losses from postponed foreign investments due to the lack of economic, legislative and reporting transparency, with an unfavourable image of the business community, corruption being often mentioned, the role of a powerful and dynamic management of the financial-accounting activity that would require ethical standards and professionalism to achieve transparency in reporting becomes increasingly vital.

### **3. The management of the financial-accounting activity in the context of implementing the new information and communication technologies**

Technology change is not a characteristic only of actual production process, but it is present in all activities and processes of the company along its existence. Objectives can only be achieved through quality information, obtained at the right moment. But how can information be obtained in due time since the work volume from the financial-accounting activity is extremely high? The answer could be only one: through an efficient and competitive general management that takes into consideration the implementation of modern data processing and information communication technologies.

The implementation of modern calculation and communication technologies has a significant impact on the management of the financial-accounting activity.

In the context of manual processing, many of the information valences of the financial-accounting activity remain unused because the delay in processing a great amount of information makes the information obtained exceed the bet terms and therefore their efficiency is little or it has no decision value. Thus, the financial-accounting activity was, in its turn, positively influenced by modern technology. The remarkable progresses on the automation line calculations come as a valuable solution regarding efficiency, in all their complexity, of the information valences of the financial-accounting activity. (Ion Negescu, 1998: 217).

*The management of the financial-accounting activity* is established as a powerful source of information and not as a means of data processing. It includes designing an information system that meets the requirements of all users, having as main objectives: the elaboration of final statements, the analysis, interpretation, implementation of accounting information and the demand to meet the audit requirements. The enterprise of tomorrow will operate in a global computerized environment; it will be more intelligent and increasingly virtual. In other words, it will have to adapt to the cyberspace dominated by the internet, by artificial intelligence and unsuspected computer science technologies. This is where the professional accountant will have to do his job. He will have to give up traditional instruments, such as paper and pen, and accept the future. Working coordinates of the management of the financial-accounting

activity can be summarized as it follows (Alexandru Țugui, 2005: 888-889): digital economy; virtuality of phenomena and processes within the enterprise; enterprises' complete computerization; the emergence of new information and communication technologies; the new types of work and activities specific to the information company; the integration of functions within an enterprise; standardization of working procedures within enterprises; real-time work; decision making process is increasingly based more on the scenarios' method; the extension of some financial-accounting concepts, as a consequence of virtuality and digitization, in a digital economy.

As a result of the long struggle between chaos and order, now, an industry of information technologies (IT) has taken shape, that companies may successfully use to be creative: complicated computer programmes, internet, intranet, extranet, expert systems, are only some of the most employed information technologies, with broad applicability in the management of the financial-accounting activity.

Using computer programmes in the financial-accounting and electronic calculation technique fields is not something new to the management of the financial-accounting activity. Nowadays, most companies have a more or less complex computer programme, by which they process financial-accounting information. Each company's automatic data processing system should provide the necessary conditions to carry out legal control.

But I considered it necessary however to bring to the managers' attention that not any computer programme is advisable to be used. Therefore, the automatic data processing systems in the financial-accounting activity has to meet the following **minimum criteria**, according to the legal stipulation in force (Order of the Department of Economy and Finances no. 3512/2008) (Balteș, Nicolae; Ciuhureanu, Alina Teodora, 2010: 137-139).

A solution for an efficient management of the financial-accounting activity is the use of *expert systems*, regarded as a modern instrument of the business people to get acceptable, profitable solutions. The main *application areas of expert systems in the management of the financial-accounting activity* are: audit (balance sheet analysis, audit planning, generating reports, VAT etc.), tax planning (business taxes, analysing taxes amount, VAT validation, etc.), tax determination, financial planning, financial accountancy and managerial accountancy. Professor Daniel O'Leary gave the following answer to the question: "Why should the management be aware of expert systems from the financial-accounting activity, respectively of their feasibility?", namely because the development of expert systems influence the allocation of resource management; expert systems in the financial-accounting activity include the knowledge and reasoning on the decisions based on the financial-accounting information, and these decisions are affected by the management's reflections (Ion Andone, Alexandru Țugui, 1999: 38, 59-67).

One question many ask is: "Will the expert systems replace accountants?". We believe that the answer is definitely negative since people are the ones who interact with the systems, human thinking being creative. However, we do not deny their usefulness for the financial-accounting activity, especially concerning the reduction of working time that the accounting expert will do to collect data.

In the current competitive climate, companies must provide the information and other innovations that users need. In order to improve the organization's and employees' capacities, visionary companies investigate the improvement possibilities of information demand over Web.

*The main use of the internet in the management of the financial-accounting activity considers the publication and transmission of information supplied by it.*

The increased use of internet for publishing and transmitting the various situations significantly reduce the costs of publishing and distribution, as compared to

the traditional version on paper (Camelia Dobroţeanu, 2001: 52). In our opinion, the introduction of this option for the Romanian companies has been a real benefit for the management of the financial-accounting activity. Imagine that you do not have to go to the institutions to submit declarations, not to mention the endless queues, the “fallen networks”, all materialising in lost time. A “click” is all that it takes to send the information. However, in reality, things are not that simple. Bureaucracy hinders a lot companies’ access to the internet communication network as far as transmission of data is concerned. Moreover, we should not neglect the cost for obtaining the electronic signature, which, we consider should not even exist.

We can also talk about intranet and extranet in the management of the financial-accounting activity (Hortensia Gorski, 2003: 198). The intranet’s construction within the company has both immediate and long term advantages. The advantages for the management of the financial-accounting activity consist of the fact that the rules, orders, circulars and all documents distributed in printed form may be replaced with electronic versions stored on the intranet’s Web sites. The problem with the printed information, especially those from the financial-accounting department, is the difficulty and duration of the update and, at the same time, the reception duration by the users. The company needs an entire infrastructure only for the printing, storage, display and maintenance of documents on paper. High costs should also be considered. It would be more convenient for employees to spend their time in different training and development programmes rather than drawing up and distributing printed documents. Working conditions would then be better. We find it interesting to calculate a company’s profit increase after introducing the intranet. The calculation would not be very difficult, there should only be quantified by how the employees’ working time is reduced and even from here we could get some savings (Loredana Mocean, 2002: 60). The intranet is currently the quasi-covering answer for the needs related to the administration of financial-accounting information, especially for the groups of enterprises and not only, and for an organisation’s team work. It is not a final, compulsory model, but only the spearhead of the field.

They say that when the company provides external access to intranet then that company has created an extranet. This is a special network that allows other companies and people to access the information listed on the intranet. Extranet applications have become widely spread as companies started to connect with the clients, suppliers and other business partners (Hortensia Gorski, 2003: 199). We should mention that both networks are protected against access from outsiders through special security software, each user having a password to use.

In conclusion, we believe that a competitive management of the financial-accounting activity could only be the one that admits the importance of new information technologies. It is willing to pay more to get what it wants when it wants it, rather than having to deal with the situation of getting something with a delay that might cost him more. The cost for implementing the new information technology should include the courses provided for training and improving the employees, as well as the programmes elaborated to change the organizational culture. Old-fashioned mentality might lead to failure in using technology, and the management of the financial-accounting activity will remain competitive only because it has seen the opportunity to purchase and implement certain calculation and communication equipment.

#### **4. The culture and financial-accounting development strategies**

A strategy is referred to whenever decisions that determine a company’s or organization’s course of evolution are adopted. The strategy’s role is imminent especially when history hesitates, builds itself and changes. This is the case of the

management of the financial-accounting which currently finds itself in the position to develop based on the principles imposed by adopting the International Accounting Standards and the International Standards for Financial Reporting in the context of globalization of economies.

Of course, we might ask: “*What is the relationship between culture and the management of the financial-accounting activity?*” or “*What connection is there between an enterprise’s culture and the development process of the management of the financial-accounting activity?*” Apparently, there does not seem to be a clear connection between the two, but if we engage in deeper analysis, we may state that it is determined precisely by accentuation of accounting reform which is implicitly influenced by the national and organization culture.

It has been often mentioned that the management of the financial-accounting activity is influenced and determined by a number of factors, such as: *the economic environment, the enterprise’s type of financing, the political and economic ties between countries, the legal system, taxation, the social system, the culture, the level of inflation*. The phenomenon of growth and economic globalization led to the emergence of an increasingly acute necessity for financial-accounting information. Given these circumstances, the management of the financial-accounting activity is different, in content and applicability, from one country to another, from one entity to another.

When we refer to differences, we do not take into consideration the legal, compulsory framework regarding the management of the financial-accounting activity, but the aspects aiming the enterprise as a social construction, influenced by all members within its activity, and also by the realities of the outside environment (Flavius Guinea, 2002: 11). Although many reasons can be invoked for the international differences of the management of the financial-accounting activity, we believe that this is mainly influenced by the national culture, through the financial-accounting systems imposed by regulations, and also by the organization’s culture, through the reasoning, acceptance and reluctance of professional accountants to the financial-accounting systems.

The financial-accounting development strategy imposed at a national level and at the level of each economic entity can not be achieved if cultural limits are always changeable. The financial-accounting development was required precisely to emphasize the globalization of national economies, the integration of financial markets and of information systems. “Finished products” from one country are becoming increasingly used in other countries, too. But, in order for that strategy to be successful, cultural aspects need to be considered, both national (in terms of the above mentioned influence factors of the management of the financial-accounting activity), and organizational.

To successfully implement the financial-accounting development strategy at a national level (even if it is imposed), and of the management of the financial-accounting activity on the enterprise, culture should initiate three types of elements (Mihaela Comanescu, 1999: 108): *reaction*, namely the enterprise’s ability to perceive and act quickly to the environment’s changes; *flexibility*, namely the enterprise’s ability to adapt quickly to the undertaken changes; *creativity* as an opportunity to find innovating solutions and to put them into practice. These elements actually reflect the organizations’ features in the context of permanent change.

Accounting rules approved in the country are facing a relative resistance precisely because of the culture’s perspective. If until now, for the Romanian accountant it was important only “*what needs and when he needs*” to work, now he finds himself in the position to be removed from this tradition meaning that it is absolutely necessary that he knows “*why and how*” to work to meet the information requirements and not only.

*We believe that* financial-accounting professionals must therefore understand that their behaviour has to change and that, in this context, the professional judgement is

based on principles that may lead to more than a solution for a given problem. Changes give, however, the opportunity to move on under better conditions and those from the accounting system are necessary to attract investors, improve the capital market and assimilate new management techniques.

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