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FIELD: ACCOUNTING**

**ACCOUNTING, PERFORMANCE AND CORPORATE
GOVERNANCE**

- Summary of doctoral thesis -

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Introduction

The economic world crisis that showed its beginnings starting with mid-year 2008 has shaken the administrative, political and financial structures. Though different measures were taken to overcome its negative effects the current situation is still tensed not only for companies or different activity sectors, but also for various countries like Greece, Spain, France, Italy and Venezuela. That is why we consider that the European Union is at a crossroad having to adapt and find solutions for diverse issues, being under pressure in relative short period of time due to three significant crises: Ukraine – protecting the territorial integrity, Greece- financial and banking crisis, immigration – finding own identity.

The financial crisis has shaped a new vision for the management and the organization of a company; the lack of cash, the limitation of the selling markets, difficulties in accessing loans, were some of the factors that led to the reconsideration of approaching risks by the entrepreneurs. Tensed events that knelt giants of the world economy, increasingly fierce competition in international markets, pressure from the public, social transformations, are signs of the need to regroup, reorganize, prioritize, and the existence of a coherent management adapted to the times we live being imperative to maintain balance and position in the market. In order to make the right decisions stakeholders need to receive relevant, real and proper information. Through procedures and accounting policies is being built a system of internal control that should confirm the truthfulness of the data shared not only to the internal users but also to the external ones like shareholders, government agencies, banks, unions, etc..

The high degree of complexity of the economic reality requires the existence of a legal framework that enlists all the necessary tools for registration, tracking and data analysis. Through this informational and decision-making process we find the main research elements of this thesis: *accounting* - through a national and international legal frame that supports the daily economic activities of each entity; *performance* – that contributes with instruments for measuring results, and *corporate governance* that supplies a system that ensures data integrity and accountability of management.

Corporate governance is providing to companies, shareholders, stakeholders a system meant to help firm's management to prevent any attempt of fraud that could cause even the company's bankruptcy. If the power of decision is left to a person or a group of persons, without transparency in decision making, it becomes difficult to identify and eliminate fraud attempts. Active participation of all stakeholders in all important areas of an economic entity represents an advantage or an assurance that various situations and problems will be highlighted, from different key areas, and that they could take informed choices.

The issues mentioned above alongside the substantial contribution that companies have in the economic mechanism, by providing jobs, supporting the smooth functioning of the administrative system (for example by paying taxes), by creating economic and social prosperity, *justifies the choice of the research topic and shows its scientific importance.*

The purpose and objectives of the thesis

The purpose of the research is to present and analyze the concept of corporate governance, both in the internal and external environment, to establish a link between performance and governance, in order to map aspects that can positively influence the company's results. *Questions* that we try to answer in this present research can be structured as follows:

- which are the advantages of adopting corporate governance systems?
- does a relationship exists between performance and corporate governance? can we measure the performance of companies through corporate governance indices?
- Board composition and size can affect the performance of the company?
- the separation of CEO and chairman of the Board influences results?
- does the investors level of protection matters for company performance?

Starting from the questions mentioned above the paper was conceived and structured to complete with the following *specific objectives*:

- highlighting the most notable concepts developed over the years by experts in the field on the emergence, evolution and characteristics of financial and management accounting;
- presenting significant features related to defining and measuring performance in terms of support provided in decision making;
- defining corporate governance and identifying stakeholders interested in the impact that this structure could have on companies;
- analysis on the development of codes of good practice both internationally and nationally;
- presenting corporate governance models representative worldwide;
- analysis of the agency theory from the perspective of the solutions that could bring balance between the objectives of shareholders and those of the executive management;
- presentation of indexes developed to measure performance through corporate governance;
- audit role in creating an environment suitable for preventing internal fraud attempts;
- present the role and characteristics of management structures focusing on Board diversity;

- identify the level of diversity in gender, age and experience for the business environment in Romania;
- identify corporate governance development on an international level and highlight relevant features of steel industry performance through corporate governance and cultural and geographical diversity.

Having set the objectives, our research paper has started from the theoretical study through the most significant elements in order to further engage in a practical study without which you cannot validate or disprove the theory.

Research methodology

Starting from the theoretical methodological frame and analyzing the classic system of cataloging the forms of the scientific research, our study is seen applicative with a joint inductive deductive approach which allows the passage from theoretic to empiric and, then, from empiric to theoretic in order to build a theoretical explanation. The processes that will underpin our research techniques include systematization and tabulation, using the Microsoft Excel through formulas and graphics, but also SPSS soft for the statistical analysis.

To achieve our goals we used several research methods like: *comparative analysis* through which we identified theoretical and practical components, nationally and internationally; *documentary analysis* as references, different laws, regulations, interpretations offered by organizations and specialists have allowed a pertinent analysis of the research topic; *non-participating observation* for evidencing the connection or interdependence between different components of the research; and for the opinions expressed by the author on various topics covered in the research we used *participative observation*.

Summary of chapters

The first chapter, *Accounting, provider of information for decision making*, summarizes the chronological evolution of accounting both nationally and internationally, reviewing the transformations undergone and the significant moments for this science. The complex flow of accounting information and the importance it has in management decisions are debated in subchapter 1.2. *Accounting as support for management decisions*. In the same chapter, to have a proper theoretical basis, we presented briefly the general principles and functions of accounting.

The second chapter of the thesis, *Definitions and performance measurement instruments in the context of the changes that impacted the world*, aims to define and present characteristics of performance in order to have a theoretical framework for further analysis. The analyzed literature illustrated that the term performance receives countless definitions, many of these referring to specific issues or functional perspectives, not offering a definition that satisfies all

users. They offer and use definitions based on their interests, managers seek global performance of the company, investors are interested in return on investments, employees are looking for stability and profitability, creditors pay attention to the solvency of the company, and customers are looking for a responsible and stable partner.

Third chapter, *Insights on corporate governance concept*, makes an overview of the elements that are part of the concept of corporate governance and also of the parties that interact in the midst of company's activities.

In this chapter we have presented corporate governance models that are representative worldwide, bankruptcies that got lots of attention from the media, what had impact in transforming corporate governance regulations, significant aspects related to the agency theory, and for Romania we have summarized the development of the codes of good practice (for example Bucharest Stock Exchange Code and Company Law).

The analysis of the connection between corporate governance and performance produced diverse results in the academic environment that is why we summarized the indexes created by various authors that tried to capture and provide information on the company's ability to perform following the adoption of the recommendations of these codes.

The fourth chapter, *The evolution of management structures in companies*, captures the importance of having a coherent organization of the company's management, with power of decision on processes, procedures, risk management and short and long term strategies.

Because diversity in the Board of Directors is a present day issue we analyzed the current status worldwide for the experience, gender and professional profile of the members of such structure. In order to make observations on the current level of diversity in companies that are located in Romania we took a sample of 15 companies that are listed on Bucharest Stock Exchange on first category. Choosing these companies was based on reviewing other studies, presented in chapter 3, own analysis of the info provided by various companies on their internet site and in different reports, the desire to make an analysis from info published by the firms, and also the fact that these companies have to respect the provisions of Order No. 881/25.06.2012 that refers to companies whose securities are admitted for trading on a regulated market and apply International Financial Reporting Standards, hence the obligation to present in the financial statements data related to the corporate governance structure.

The fifth chapter, *Performance through geographical and cultural diversity in the steel industry. Possibilities and limitations*, analyses the evolution of three leaders in the steel industry, namely ArcelorMittal Group, with headquarters in Luxembourg (number 1 worldwide in the production of crude steel), Nippon Steel & Sumitomo Metal, with headquarters in Japan (number 2) and POSCO, with headquarters in South Korea (number 5). Companies that are on

4th and 5th place, Hebei Steel Group and Baosteel Group, have operations mostly in China, and although lately are showing openness to the West, do not provide useful info for analysis on their own internet site. The chapter goes briefly through the history of the steel industry, provides info on supply and demand movements, the risks that this industry is facing and the economic development for the companies during 2007 – 2014. The cultural and geographical diversity characterizes the daily work of the analyzed companies through production facilities, sales offices, a portfolio of clients and suppliers which are found in various areas of the globe.

Our research deepens on theoretical and practical situations that are connected with corporate governance, outlines the current status of its development presenting opportunities for improvement nationally and internationally, better said where you have to intervene to find the winning solution for all stakeholders.

Conclusions

Performance of an economy or a company is usually evaluated based on achieving proposed goals on short or long term. Either we discuss of human resources performance, of innovation or financial results like operational profit or Ebitda all these are interconnected, because we can't consider a company to be solid if the accounting results are positive and the lost time incident indicator is above accepted limits in their area.

The attention given to corporate governance has increased, both in our country and globally, after a range of scandals that received huge media cover that had an economic, social and political impact. Out of many scandals we only mention now Enron (2001), WorldCom (2002), Arthur Andersen (2002), Lehman Brothers (2008), whose domino effect triggered the global economic crisis whose consequences can be felt even today. In light of global economic changes corporate governance came to be seen as a controversial economic concept discussed both by practitioners and theoreticians (Ștefănescu, 2011). In the midst of the discussions is the link between compliance, the cost of conforming and the benefits brought by corporate governance. In what we are concerned, through the studied literature, own research and professional experience we see as the most important benefit *of corporate governance* creating an internal environment capable of promoting values, identifying problem areas and take measures to correct them. Also corporate governance structure discourages self-interest, promoting relationships based on trust and responsibility, supports transparency in decision making and an ethical conduct. The interdependence between the economic, political, social system and the transformations undergone by them over time have shaped the legislative framework and the society in general which leads Morck and Steier (2005) to say that the history of corporate governance is actually the history of capitalism.

The work done by companies is with interest for various stakeholders, each of them bringing in the relation expectations and fears. Whether we discuss of the internal environment (shareholders, management structures, employees, unions) or the external environment (government institutions, local community, external auditors, investors, stock exchange) we analyzed each party intervention, establishing that the highest interest, otherwise common, is the company's welfare that is expected to be conveyed to all interested parties.

The research continued with the most significant models of corporate governance: Anglo-Saxon model, the continental-European and Japanese. *Among the codes of good practice* which outlined government principles of a society are *Adrian Cadbury Code* (1992), *Combined Code* (1998), *Sarbanes-Oxley Law* (2002), the principles defined by *OECD* (The Organization for Cooperation and Economic Development - 2004), *COSO Frame* (2013).

The provisions of the governance codes raises debates between the group that is in charge with issuing them and the group that has to comply. Both internationally and nationally the results obtained by various studies show different opinions when debating the relation between corporate governance and performance. Renowned authors like Gompers, Ishii and Metrick (2003) have constructed G-Index aiming to measure if the provisions of corporate governance can influence company's performance. Bebchuk, Cohen and Ferrell (2004) have created E-Index, also Brown and Caylor (2004) have developed „Gov Score“. Because there are other factors to be taken into account, such as legal and political context, country traditions, the level of corruption, none of the authors finds a causal relationship between governance and performance, recommending further studies to remove some of the unknowns highlighted by their research.

In order to identify how companies in Romania feel about complying with the provisions related to corporate governance we have reviewed several studies Guni (2011), Ionașcu et al. (2011), Răileanu and Dobroțeanu (2011), Feleagă et al. (2011), Ștefănescu (2011), Ionașcu and Olimid (2012). Romania took small steps towards complying with the provisions of corporate governance codes mainly due to lack of consistency of economical regulations. Local entrepreneurs have suffered due to bureaucracy and inconsistent enforcement of the same law by the government agencies, questioned privatizations have eroded citizen confidence in the political class representatives and foreign investors were frightened by corruption.

The first code of good practice in Romania was „*Corporate Governance Initiative for Economic Democracy in Romania*“ year 2000, followed by „*Code for governing and management*“ of Bucharest Stock Exchange (BSE) from 2001. The provisions of BSE code are optional as only the listed companies have to comply, but companies have to follow first the laws

that are mandatory like Company Law no. 31/1990, Accounting Law no. 82/1991, Capital Market Law no. 297/2004.

In Romania, companies have to show more involvement and to give more time to corporate governance for reaching a satisfying level of compliance with the provisions of related codes. Own research and that of other authors show that serious work will have to be done to reach the next level in compliance, as long as for analyzing the corporate governance structure a fair comparison can only be made for 15 companies out of 100 listed on BSE on 6th November 2014 (29 companies – category I, 50 - category II, 2 – category III, 19 – unlisted).

When it comes to compliance with corporate governance, *The Board of Directors* is an integral part of a company analysis. In light of the changes suffered by the economy and due to the negative impact of bankruptcies of companies considered financially solid, the position of member of the Board of Directors has evolved from a job given to an amateur with good recommendations, to a job that requires reliability, experience, dedication. Given the way that the Board of Directors can influence the company's evolution, through vision, strategy and innovation, this structure has reached to be seen as a competitive advantage.

With respect to *the diversity of gender, age and experience* of the board members the literature shows contradictory results as some studies considers the presence of women as bringing an increase in performance when other studies don't find a relation between the two. Countries like Austria, Belgium, Finland, France and Norway have introduced specific requests related to women presence in the Board of Directors (BoD) while countries like Great Britain and United States have only made recommendations.

In our opinion, the presence of women in BoD's is beneficial and should get more support, but I think that there are too many factors to be taken into account before stating that firm's performance can improve only by the intervention of one or more women. The success of a team depends on the way its members learn to work together, the renunciation of pride and active participation in every situation that requires attention.

For Romania we had undergone *a study on corporate governance structure* for 15 companies. Our choice was based on previous studies, on the fact that firms are listed on BSE in first category and follow Order no. 881 from 25 June 2012 that refers to companies whose securities are admitted for trading on a regulated market and that apply the International Financial Reporting Standards, hence the obligation to present in the financial statements data related to the corporate governance structure. The need to make a proper comparison from both points of view, quality and quantity, has concluded in choosing the above mentioned 15 companies. The first set of conclusions were obtained in October 2014 and the second in August 2015. What I can say with conviction is that over about one year, the time between the two tests,

we have seen improvements in the quality of the data provided on the internet sites by companies. However, they remain far from the level offered internationally.

For the year 2014 study findings, detailed in subsection 4.2.3.3. can be summarized as follows:

- the average number of members for BoD is 6, which complies with Company Law which requires a number of minimum 3 and maximum 11;
- the presence of persons of foreign nationality: Alro (20%), Biofarm (20%), Impact Developer & Contractor (20%), Oil Terminal (14,29%), OMV Petrom (77,78%);
- the average age of members for companies that have presented this information is 51,64 years (Alro, Antibiotice, Biofarm, Electromagnetica, OMV Petrom, Prefab, Ropharma, Transgaz, Socep);
- Ropharma is the only company which presents data on the seniority of Board members; the other companies either don't give these details or mention the last appointment date;
- independence level - due to legal provisions it is quite difficult to establish the independence level of the members of the Board if there is no support from companies; info is presented separately only by two firms, Alro (1 executive member, 3 non-executive members, 1 non-executive independent member) and Transgaz (for four of the five members – 1 executive member, 1 non-executive member, 2 non-executive independent members);
- only 6 of the 12 companies have offered details on the number of women in the BoD;
- experience: sector related (26%), financial (38%), general (34%);
- 5 of the 13 companies have the general director covering also for the position of Chairman of the BoD.

Economic performance analysis was achieved through profitability indicators for assets and equity. The companies Concefa and Oltchim, which are in insolvency, have negative values for both indicators; the same situation is registered for Turbomecanica, and the causes of these results are in my opinion the lengthy process of manufacturing, the fresh relocation or losses accumulated in the previous period. Impact Developer & Contractor SA involved in real estate development and constructions has negative values caused by the same long process of manufacturing but also by the economic crisis that has impacted seriously this sector.

From the analysis performed we outlined a different point of view in relation with companies' performance. That is why we consider that companies' results, positive or negative, are closely connected with the activity domain and with the mentality of contemporary society: health deterioration, daily living dependency to oil and gas, are factors contributing to the profitability of some industries over others. But beside all the help that comes from the activity

domain and from the demand from the market, a company can't survive on long term without coherent strategy, adequate to the times we're living and without serious management, dedicated and responsible.

Year 2015 has not brought significant changes in our analysis, companies largely maintaining the same board structure. We have 7 companies without changes (Biofarm, Electromagnetica, Impact Developer & Contractor, Prefab, Ropharma, Transgaz, Turbomecanica) and the other 6 (Alro, Antibiotice, Transelectrica, Oil Terminal SA, OMV Petrom, Socep) do not undertake significant modifications. Socep has replaced the general director in the Directorship, OMV Petrom remained with the same number of members, but the Supervisory Board has 3 new persons and the Directorship only one. Oil Terminal has in 2015 the same structure of 7 members, but only one is common to year 2014. Transelectrica has modified the number of members of the Supervisory Board from 6 to 7, the Directorship maintaining a structure of 5. The only change from Antibiotice is the replacement of the Chairman of Board of Directors and Alro has increased the managing board with 2 members. Annexes 4.4. and 4.5. summarize the analysis carried out for the 15 companies.

Through the research conducted we conclude that companies in Romania have a long way to go until they achieve international standards regarding corporate governance. Companies in our country are far from understanding the benefits brought by corporate governance and by a Board of Directors whose experience can raise the standard of the human capital. The companies where the government is found through the shareholders are under the influence of politics, and the appointments in the Boards are far from taking in consideration the expertise of the person focusing more on friendship relations.

The steel industry brings to the fore a product used often in our domestic environment with benefits in four key areas: sustainability, cost, safety and design. Leaders of the steel market contributed to the analysis carried out for years 2007 – 2014 showing the problems created by the global crisis, risks that this industry is facing, solutions to preserve market share either we debate mergers of companies or cost reduction actions.

Among the most significant *risk factors* that the steel industry is facing that led to changes in procedures and business processes we present in chapter 5 the following: overcapacity, cyclical nature of this industry, stringent environmental and health & safety regulations, replacement of steel with other materials, fluctuations in raw material prices and geographical changes.

The analysis of the leaders in the steel industry for 2007 – 2014, for which we have chosen a set of performance indicators, took in consideration the first ten crude steel manufacturers worldwide, but the lack of data or bad quality data, the need for appropriate

comparisons led to analyzing financial statements only for ArcelorMittal (number 1), with headquarters in Luxembourg, Nippon Steel & Sumitomo Metal (number 2), with headquarters in Japan, and POSCO (number 5) with headquarters in South Korea. Unfortunately companies like Hebei Steel Group (number 3) and Baosteel Group (number 4) with headquarters in China don't provide information about the financial situation making it more difficult to be compared to other companies, but the fight for market share is causing an openness towards the West. The companies from positions 5 – 10 do not disclose the necessary information to be taken into account in the analysis and our opinion is that the main reason of this situation is the location of 4 of the 5 companies in China.

These companies are operating on a large area of the globe through production facilities, sales offices, customers and suppliers portfolio, being promoters of cultural and geographical diversity. The extent of diversity for the sampled companies can be seen from the information provided by them: ArcelorMittal is operating in 19 countries from 4 continents in 56 mills; NSSMC follows closely with 15 countries and 16 production units and POSCO is supporting 47 internal subsidiaries, 181 foreign subsidiaries and 97 joint ventures.

Our research has concluded that the sampled companies comply with regulations relating to board composition, as laid down in the provisions of Stock Exchanges where their shares are listed or other mandatory government codes / laws from the countries where the firms are located. The BoD of ArcelorMittal has 11 directors, out of which one is executive, 3 non-executive and 7 non-executive independent. NSSMC has a team made of 14 directors with 2 external, Baosteel considers appropriate a number of 10 directors out of which 4 are independent and POSCO is forming a structure of 13 members with 8 external directors.

Through the indicators chosen, operational and net profit, return on assets and equity, human capital development and current liquidity, it was confirmed that the global economic situation affects companies' regardless of where they are located - either it is Europe, USA or Asia. The worst results were obtained in years 2009 and 2012, in fact the period with difficulties in many sectors due to the generalized financial crisis, which delayed or stopped infrastructure projects and investments.

Solutions to counter crisis were both innovative and classic, like: working in campaigns, efficient production chain, cost reduction programs, focusing on products with high added value, relocation, activity confinement.

The statistical analysis showed how complex is the steel industry, how difficult it is to find correlations between the financial indicators, what strong interdependencies exist between the industry and the energy or the construction sector. In this regard, we consider that the steel industry, like other sectors, is always looking for success, profit, putting its mark on the

economic, social and political environment, trying to cope with global economic pressures and competition.

Personal contributions

„The splash of color” in this research is in our opinion the combination of theory, through the analysis of other studies, practical, through the research conducted, and their reunion through the professional experience of the author accumulated in nearly 11 years in a competitive and demanding system.

Personal contributions can be summarized as:

In the first chapter *Accounting, provider of information for decision making* we accomplished:

- highlighting the most notable concepts developed over the years by experts in the field for the development and characteristics of financial and management accounting, seen as providers of information;
- presenting the concept of information and other complementary notions like information system, goods and information resources;
- identifying main reasons for which accounting is seen as the leading provider of economic information;

During the second chapter *Definitions and performance measurement instruments in the context of the changes that impacted the world*, we focused on:

- presenting the conceptual framework related to the notion of performance through the support provided in decision making;
- highlighting the most significant approaches for defining and understanding performance presented in the literature.

For the third chapter *Insights on corporate governance concept*, we accomplished:

- to present the conceptual framework of corporate governance and identify stakeholders with impact on company structure;
- to highlight the most significant moments of the development of codes of good practice, nationally and internationally;
- to summarize the most important traits of corporate governance models representative worldwide;
- to present the agency theory taking into account the elements that can bring balance between the objectives of the shareholders and the executive management;
- to highlight the most representative indices build for measuring performance through corporate governance;

- to analyze audit's role in respecting the principles of accurate accounting reporting and in creating an internal environment suitable for preventing fraud attempts.

During the fourth chapter, *The evolution of management structures in companies*, we focused on:

- presenting the role and characteristics of management structures focusing on Board's diversity;
- identifying the factors that can turn the Board of Directors in a competitive advantage;
- highlighting the most significant points of contention for the presence of females in leadership positions;
- identifying the level of diversity in gender, age and experience for 15 companies listed in the first category in the Bucharest Stock Exchange.

For the fifth chapter, *Performance through geographical and cultural diversity in the steel industry. Possibilities and limitations*, we accomplished:

- a brief overview of developments in the steel industry;
- to analyze the risk factors that put pressure on this sector's performance;
- to identify the development stage of corporate governance internationally with the support of market-leading companies in the steel industry;
- to highlight key moments for the financial performance of the sampled companies for period 2007 – 2014.

Research limits

The limits of this research are mainly related to the data which should form the basis of an extensive and detailed research and to which we didn't have access, restricting the areas that we wanted to study, such as executive remuneration or the sectors contributing most significantly to company profits. We believe that the most important limitations can be grouped as:

- dispersed data, presented in different structures by the analyzed companies;
- lack of information for a large number of companies that had to be removed from the comparison;
- presentation by companies only of some bits of data due to fears that confidential information will be disclosed and used by the competition;
- different reporting currencies internationally;
- superficial treatment by companies of different topics of interest for our research, rather little information to draw a conclusion rooted in reality and supported by consistent evidence.

Prospects for further research

Regarding the research topic it would be interesting to see the evolution of the sampled companies in next years because the global economic situation is far from being solid, oil price continues to decrease and the geopolitical situation is quite difficult. The analysis should focus on the strategies adopted by companies for maintaining market share, the list of customers and valuable employees. Another research topic could be the attention paid by Romanian companies to the corporate governance system and if in time firms will understand the benefits that it can bring, working towards development of corporate governance and towards respecting law provisions.

References

The bibliography used includes 121 books, 175 articles, 7 legislative acts and 24 Internet sources.