

THE ROLE AND IMPORTANCE OF ECONOMIC AND FINANCIAL INFORMATION IN CORPORATE GOVERNANCE

Ionel Bostan¹
Veronica Grosu²
Eugenia Iancu³

ABSTRACT: The evolution and globalization of the markets, the financial scandals that have crashed in different ways the American and European economical systems and the raise of the pressure on behalf of the investors over the economical performance have fueled serious debates regarding the critical role of the economical and financial communication and regarding the indisputable relevance that, in the actual context, covers the corporative government systems and structures.

The fundamental characteristic of the financial market is, in fact, to have as main target the so-called "virtual richness": at the moment where a financial product is offered to the public, substantially it is offered "the inherent information of the richness". In this paper, the authors are trying to show the importance of the content, quality and time of such information, and also the efficacy of the systems to which the control is destined, consisting the base in guaranteeing the optimal allocation of the resources on the market and therefore must be the object of the prior attention of the legislative organizations in regulating their own markets.

Key words: financial product, financial scandals, globalization, financial markets, stock exchanges

JEL codes: M40, G30

Development and globalization of markets, financial scandals that have collapsed (dragged), in different ways U.S. and European economic systems and the pressure growth from investors on economic performance, have fuelled burner debate on the critical role of economic - financial communications and on the indisputable relevance which, in the current context, covers the systems and structures of corporate governance.

Economic literature in the field of governance is much wider to the references of this material.

Fundamental feature of financial markets is the fact that to have as object the so-called "virtual wealth": as soon as it is offering to the public a financial product, is offered to substantially "information inherent wealth." Content, quality and time of such information, also the effectiveness of such systems which is intended to control, constitutes the basics to ensure optimal allocation of resources on the market and should therefore be subject to the priority attention of legislative bodies to regulate their markets.

External information, in particular, it recognizes a fundamental role in the smooth functioning and development of financial markets, making it into progressively more accessible to dematerialization and globalization of information processes.

In this context, the impact of information is becoming ever wider, involving a large number of investors and other users of economic – financial information, interested in a different way,

¹ University "Ștefan cel Mare" Suceava, Faculty of Economic Sciences and Public Administration, Universitatii street no.13, e-mail: ionel_bostan@yahoo.com

² University "Ștefan cel Mare" Suceava, Faculty of Economic Sciences and Public Administration, Universitatii street no.13, e-mail: doruveronica@yahoo.it

³ University "Ștefan cel Mare" Suceava, Faculty of Economic Sciences and Public Administration, Universitatii street no.13, e-mail: eiancu@seap.usv.ro

which expectations made to grow exponentially, the pressure on entities, in terms of "pursued results."

External information is made, therefore, in the centre of a complex series of relationships between the entities and broad and heterogeneous range of "stakeholders, characterized by diverse interests and objectives; having a role, we say, decisive, in the balanced development of dependent societies, in the availability and the optimal allocation of necessary financial resources to generate competitive advantages and generate income; financial markets constituting in fact the priority channel for the access of such resources, being therefore an indispensable element for the development of entities and economic systems.

In an interview of the magazine "Il sole sul 24 ore", J.L. Langton, executive chief and general secretary of the International Securities Market Association (ISMA), in 2007, states that "the proper functioning of markets requires the transfer to operators, from the market the appropriate information, he has also stated that to make it work better the financial markets, are necessary only appropriate, accurate and accessible information to all privates or institutions, in order to put the investor fully aware of the risks."

Economic - financial communication, in this optic, eases the readability correct orientation of the internal behaviours and management, based on performance, external consensus, and fundamental to restoring of risk and credit capital (resources).

The close link between information and decision-making process, the investor is at the origin of the growing importance of information, whose role of fundamental variable in guiding investment decisions is recognized by all entities.

In a capitalist developed economy, market access represents the idea of remaking the risk resources necessary to maintain competitive advantages. The success of enterprises, on the financial market, is the most part, dependent on managing relationships with investors and information vehicle to them. In pursuing and achieving the objectives of growth, dimensional and accounting, satisfactory must be therefore accompanied by a proper transparency, communication on the market.

The ability of companies to acquire necessary consensus on the part of investors and related resources, it appears to be subject not only by the economic performance, but also:

- Dissemination of information, aimed to facilitate the evaluation processes;
- Selection of appropriate content, time and methods of communication, in relation to expectations known characteristic to different types of recipients.

Effectiveness of economic management finds therefore, an essential support to the dissemination of internal and external information; companies are, in specific ways, targeted rationalizing behaviours in order to achieve the managed objectives, while external information are directed to meet the expectations of different classes of stakeholders.

In the sphere of communication processes carried out in order to maintain economic efficiency, a primary role is held by messages with economic – financial content, representing synthesis of effective or proposed methods in order to possession of revenues. Through economic - financial information system, an entity communicates the level of effectiveness and efficiency achieved during the administration, through the dissemination of relevant information, synthetic and selective, aimed to express the symbolic, complex phenomena and the fruit of a vast number of interrelations.

First of all, the diffuse information agree to operators from the financial markets, to develop views on ways of future development of management, which, as is known, are on the base of the degree of confidence that markets have in economic societies. Economic and financial communication assumes primary relevance in both orientation of internal and external behaviours, and in extern management of consensus completed through the acquisition of qualitative and quantitative resources able to meet the needs of the society.

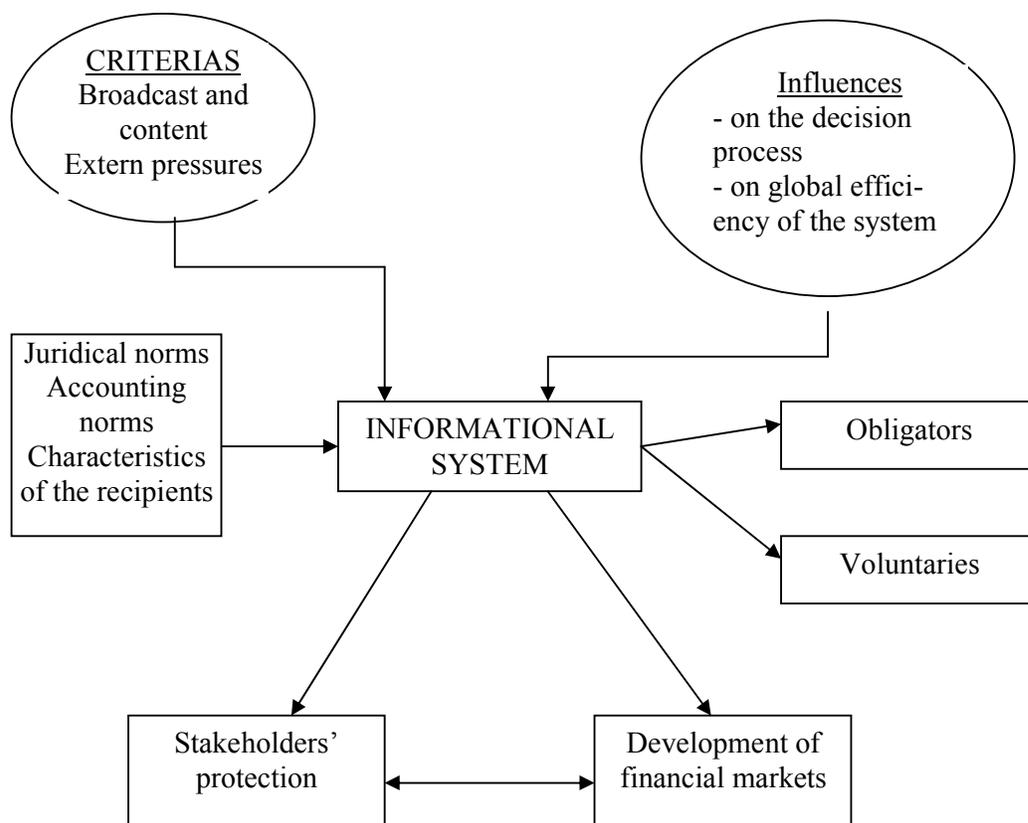


Figure no.1 Extern informational system

As a result of relevance increase of economic - financial information regarding the global effectiveness of the economic system increases the pressure from many sides, on the entity, amplifying the difficulties of governance and control of information flows produced by it.

The clearest evidence in this regard, are financial standards in the recent years, that have clearly demonstrated the fundamental role of information, especially the damages to the economic system and each entity in part, as a result of bad information or inappropriate, uncontrolled and unverified information.

Spasmodic pressure of the investors on accounting results determined alarming perverse circuits; positive expectations of investors means for them a prerequisite to company's survival; meet these expectations is therefore converted into a priority requirements, ending in overlaps of objectives of management origin of the entity. The possibility of maintaining the conditions of economic success, results therefore to be influenced by a number of factors not necessarily inherent in the effective performance of the entity, such as charging different expectations of market players; vehicular capacity of the messages directed to facilitate knowledge of the satisfaction degree of these expectations; the training ability of some trusting relations with operators on the market and appropriate management of external consensus. Globalization of markets and shorten the time to be carried out the evaluation processes, emphasising then the relevance of communication models to enable positive relations between the entity and external environment.

Determining factors in the quality of external information system

Structural, cultural and organizational characteristics of each entity influences in a determined manner the mechanisms of communication, the contents and the types of information supplied to the market.

Quality of external information, depends, however and can before all, by the variables of external environment of the company; in particular reference is made to:

- Legal rules on annual financial statements and institutional information system;
- Rules on corporate governance;
- Prescriptions provided in national and international the accounting rules and standards;
- Characteristics and requirements of recipients of economic - financial information.

In confronting such external variables, the challenge of the entity is given in both categories of information users and understanding of "point to point" their information requirements, specific and diversified, also in weighing of the impact of decisions effect on economic management. By these items, will depend not only the nature of information, but also the configuration of communication process. Satisfaction of information needs is in fact an indispensable requirement in order to maintain the confidence of investors. The vast category of effective and potential information users includes an extension of the importance of the information provided through formal and settled channels to those transferred in an informal manner. In addition to regulated markets, for example in the case of the companies led by "family", the information travels through informal channels or even through personal contacts with customers and suppliers and through direct relationship between company's management and reference investors.

In countries with developed economy, in the presence of efficient financial markets is impossible and even pointless, to obtain an adequate knowledge of the entity and its management through direct contacts; the only means of information available to stakeholders is therefore official information: the balance of the year; Periodic reports, presentations made by analysts. It can therefore understand, anxiously with operators awaiting the publication of information. A negative result, or below expectations, could prejudice the confidence of investors and therefore, will put the entity in a series of difficulties, putting into question even the continuity of business.

Accelerating dynamic markets, which at the origins of information demand increasingly numerous in the period of time shorter constitutes a later element of pressure on the economic - financial information systems. In this sense, supervisory bodies of the stock exchanges have increased, in a general manner, the need for mandatory information, both in terms of content and in terms of frequency of documents (quarterly relationships, increase the content of explanatory notes, with mandatory information related to corporate governance).

Enrich of the content and increase of information frequency have agreed to overcome the limits imposed by the annual reports for a time, often inducing an orientation in the short term and very short, in absolute contrast with the requirements of sustainability and development in time of the entity.

Requirements of confidence in economic - financial communication

As a result of considerations that we will expose in this section, you can understand quite well, how in modern capitalist systems, the theme of economic - financial communication, foreign to the entity has been amply discussed. Acceptance of increase relevant economic - financial information, necessary to satisfy the requirements of a broad category of users and handling information collide with several basic principles of economic ethics.

Analyzing according to the concurrence, the factors of context, of which depends the quality of external information (regulations in terms of balance sheet, corporate governance, national and international accounting rules; users' features and requirements for information), it is necessary to emphasize how regulation in terms of accounting, by its very nature of balance and intrinsic subjectivity of evaluating process what are the origins of flexibility, that agrees operators to take

advantage of a relevant degree of discretion, which can easily lead in the absence of an effective system of control, to the manipulation policies of data, information and results.

Actual capacity of the external information, to properly represent the economic - financial situation of the entity, should therefore be conducted by other channels also, subject to mandatory rules on the management and control subordinated to economic activity.

In the so-called House Report, the objectives of the internal control system are classified into 3 categories:

- Effectiveness and efficiency of economic operations;
- Information attendance;
- Compliance of management with laws and regulations in force (internal or external to the entity).

Regarding our theme, a major interest is the definition of information attendance, which, in the opinion of the Italian economist Messier may be interpreted and evaluated in terms of:

- Existence (existence) - the information should reflect actual operations and existing facts;
- Complete (completeness) – frame which information provides inside or outside the entity, must be complete;
- Accuracy (accuracy) - the information should not represent superficial simple data, but to provide relevant and detailed elements of study;
- Classification (classification) - information must comply with clear parameters for classification, with respect to optimizing the advantages of the beneficiary and minimize the search time;
- "On time" (timing) - the information will be calculated not only according to its intrinsic fairness, clear and the time required to obtain;
- Imputation (detail tie-in) - the evaluation findings must be correct;
- Assessment (redizable value) - information must be the result of a proper assessment, in accordance with laws and generally accepted rules;
- Allocation of rights and obligations relating to the management operations (rights & obligations);
- Description and presentation (presentation & disclosure) - the use and accessibility of information appears to be based on how they are presented.

If you were to do a graphic of how it can be interpreted and evaluated attendance of economic - financial information, it should look like the figure below:

Information attendance
Existence
Completeness
Accuracy
Classification
Timing
Detail Tie-IN
Redizable value
Rights & Obligations
Presentation & Disclosure

Figure no. 2. Attendance of information according to the theory of W.F. Messier

Need of a full information transparency, become indispensable element in economic competition, goes so through effectiveness of the corporate governance system and in particular of the control system.

A proper regulation in the field of accounting is appropriate therefore that a necessary condition, but not sufficient to achieve transparency of information.

Obligatory information must be part of an integrated communication process, not only in the sense of compliance with the standards, but also consistent with the systems of governance, with position in relation to the external reference environment and to strategic fund guidance.

The quality of external information - an expression of economic culture

Correct orientation of communication election involves the affirmation of a culture oriented towards constant improving of information quality, according to the route made on valid management models of consensus, the stamp of transparency and communication competence.

Norm prescriptions must not represent the only element of the promotion of external economic communication; it should be defined by the constant satisfaction of the requirements for recognition - evaluation, with the conditions necessary for equality and decency.

Legislative intervention, necessary to provide a common basis for reference and a single direct line, in drafting the balance sheet can not guarantee, for one, respect the principles of transparency and information compliance, given the discretion that can not be indefinite in the drawing up the balance sheet, and increased of economic complexity; confirmations represent, initiatives of domestic regulatory of industrial or financial entities, to discipline areas not yet covered by the law and provide information that were not expressly required, but considered useful for investors. Economically an excess of rules can become more harmful than an inefficient control. A series of voluntary standards, accompanied by incentives supported by a request of a greater transparency, may be an optimal point of application.

In this optic we can distinguish between mandatory information derived from factors of regulatory obligations, to protect third parties and guaranteeing information for stakeholder, and voluntary information, unasked expressly by normative sources, but proposed by each entity in order to fill in and interrogation of required information which knowledge will be appreciated by the market.

Conclusions

As it was mentioned, the existence of regulatory obligations, do not represent a guarantee of the communication quality; being significantly influenced by the specific characteristics of each entity. In particular, the effectiveness of economic - financial communication, whether mandatory or voluntary, tends to reflect the dominant culture characteristics. Regarding the required communication, it is necessary to see that in almost all EU countries, the legislature attempted especially in recent years, to standardize the European systems always oriented towards a greater information transparency to protection of investors and market efficiency. In the context of competitiveness increase, all entities to gain maintain and enhance the role and importance acquired, will have to confront the requirements of a globalized market, composed of international investors increasingly interested in the economic results of the company and information flows coming from this.

Current challenge is to face models of social organization, developed by the economic systems more advanced; comparability of governance structures and economic information become a necessary element in valuing of the virtual behaviours of the society. Investors, even international ones, should be able to identify more easily the main features of society, but also the legitimate motivations for any non-alignment at "best price".

Better information leads to increasing of the company's reputation on the market, because it is more visible the manifestation of quality in its administration and management. Therefore, it is clear the fact that in the own interests, the companies must, first of all, to substantially upgrade recommendations that attempt to regulate the economic activity and to communicate clearly, transparent and direct all the information necessary to external subjects.

References

1. Airoldi, G., Forestieri, G. (1998), *Corporale Governance. Analisi e prospettive del caso italiano*, Etas, Milano.
2. Antonelli V., D'Alessio R. (2003), *Il falso in bilancio. Osservazioni su alcuni riflessi del decreto legislativo 11 aprile 2002 n. 61 sul governo dell'azienda in Economia & Management n.1, febbraio.*
3. Arno, G., Ianni, G. (2002), *La riforma del diritto societario. Commento alia legge 3 ottobre 2001, n. 366*, Giappichelli, Torino.
4. Bostan, I., Condrea, P., Burciu A., Alunica V. Morariu, *The motivator component of human resources management: Maslow and Alderfer, contrasting în Volumul 4 (internațional) Tehnologii moderne, calitate, restructurare (TMCR)*, editat de Universitatea Tehnică a Moldovei și Ministerul Economiei din Republica Moldova, apărut la Editura Universității Tehnice a Moldovei, Chișinău, Ediția XI - a, 31 Mai 2007, ISBN : 978-9975-45-034-8; 978-9975-45-037-9, pp. 314-319.
5. Bruni, G. (2004), *I principi contabili. Fondamenti e percorsi evolutivi*, in *Rivista dei doftori commercialisti*, Fasc. 1.
6. Bufacchi, I. (2004), *Crack, dietro l'etichetta molte realtà*, // *Sole 240re*, 18 febbraio. Cacchi,
7. Fusaro, P.C., Miller R.M. (2003), *Quello che e andato storto alia Enron*, Etas, Milano.
8. Pessani, S. (2003), *Corporate governance, sistema dei controlli e intermediari reputazionali negii Stați Uniți d'America dopo ii caso Enron*, *Giurisprudenza commerciale*, 30
9. Salem, Fiori G. (1999), // *principio della "rappresentazione veritiera e corretta" nel bilancio d'esercizio*, Giuffre, Milano.
10. Sheikh, S. (1995), *Perspective on Corporate Govenance*, in S.Sheikh, W.Rees, *Corporate Govenance & Corporate Control*, Cavendish Publishing Limited, Londra.
11. Weisbach, M. (1998), *Outside Directors and CEO Turnover*, *Journal of Financial Economics*, voi. 20 n° 1-2 .
12. Young, M.R. (2002), *Accounting irregularities and financial fraud. A corporate governance guide.*