



Classicism and Modernity in the Information System on Financial Performance

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Abstract *The article concerning the subject of "classicism and modernity in the informational system on the financial performance" points into the reader's attention some aspects concerning the current demand and the extra-accounting information in the context of the emergence of the social accounting, which is a concern with some accounts circumscribed to all those firms with an interest both in the organization (stakeholders) and not only towards them (shareholders).*

Key words:

Accounting, accounting information and non-accounting information, informational system, financial indicators, social accounting, financial performance

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1. Introduction

Until twenty years ago, the companies' management was dominated by financial indicators. The disclosure of the financial information characterized the accounting for more than a century. However, in recent years, the financial information faced with countless limits. It is increasingly clear that it cannot capture all aspects of the organizational performance. Also, in the last period of time, many financial scandals have erupted and confused all categories, beginning with investors, but also with employees and professionals in the financial sector.

2. Current demand and extra-accounting information

Until recently, the financial information was seen as the most relevant in order to characterize and communicate an organization due to some reasons of simplicity, practical materialistic perspective and easiness of operation. The monetary translation of the information was able to ensure a certain kind of objectivity, with comparability between data and their consolidation.

The calculation and the use of the financial indicators is closely related to the preparation of the financial statements, ensuring consistency between the information communicated to the external users and the information used internally and this has eased the work of producers of information. Of course, the evolution of the financial indicators has followed the trend of the improving financial ratios and the financial analysis methods. Financial performance indicators are easily and inexpensive to obtain, are easy to be verified

because they reflect the concreteness of the transposed monetary events.

We admit that limitations of these indicators are becoming increasingly evident. These indicators are oriented to the past and they say nothing about human skills, about the intelligence and morality of their business. Social responsibility is a paradigm more and more used and should be highlighted in some way also by accounting means.

The organisms having as special items the normalization and the academic system broad their vision concerning the accounting field by introducing the concepts of sustainability (English: *sustainability*), partners (English: *stakeholders*), social responsibility (English: *Corporate Social Responsibility*) or global reporting (English: *global reporting*).¹

The financial performance refers to information such as turnover, cost or outcome (obtained through profit or loss), information about the liquidity and solvency (obtained from the balance sheet and cash flow statement) information on profitability, profitability (obtained from the analysis of all financial statements). But the performance itself signifies the degree to which a responsible (an executive, an official) achieves his goals. Performance measurement is done differently depending on the level of responsibility and the feature already established. The main characteristic but also limitation of the financial indicators are that they measure the past and what it is easy to be measured.

¹ Albu N., Albu C. *Provocările raportării externe la începutul mileniului trei*, Teorie contabilă, p. 13.

Many types of financial indicators can be used inside the internal management, such as:

- *Treasury;*
- *The need for working capital;*
- *The level of indebtedness;*
- *Indicators of activity-turnover;*
- *Indicators for measuring costs;*
- *Indicators of profitability.*

There are some indicators more modern, able to measure performance and value, such as:²

EVA (Economic Value Added). It represents the net profit decreased by the cost of capital. It is determined by the formula:

$$\text{EVA} = \text{Net Result} - X \text{ Permanent invested capital} \quad (1)$$

In order to calculate this indicator cannot be used the information of the financial statements, but there must have made some modifications. There are countless restatements, these being in strict dependence with the accounting referential and which led to the financial statements. The main restatements are: the capitalization concerning research and development expenses, cancellation incidence of deferred taxes that do not match to some payments, considering location-financing contracts as a form of financing balance for adjustment provisions included in the result for their variation does not correspond to a flux flows. Ignoring a restatement may create distortions of millions of dollars. EVA has the merit of trying to measure the value created by the enterprise itself. But EVA has also some disadvantages such as the large number of restatements and the high cost of their financial performance and the need of a special way to look at it in terms of this indicator.

- ROCE (Accor) return on capital employed (retours sur capitaux employés), a form of operating cash flow reported to the employed capital;
- TSR (Boston Consulting Group) return to shareholders (total shareholder return), which is based on cumulative dividends since the date of the investment ;
- Indicators of type DCF (discounted cash flows – brought up-to-date treasury cash flows) or CFR (cash flow return–capital's rentability based on capital returned from the treasury cash flows). In fact, many authors emphasize the fact that when we start from the same assumptions, EVA and DCF lead to identical results;
- MVA (market value added) represents the difference between the total value of a company and its capital.

Because of the financial information and its inability to capture all facets of the performance, there are required increasingly more non-financial information. Balance sheet and profit and loss account give a tangible asset but does not reveal anything from the transforming immaterial and the transforming value of a company or organization, which, in fact, is the most important.

Of course the financial indicators are useful, they have a high informative value, but they should be supplemented by non-financial information. They show the consequences of events, but they don't have a preventive role. Financial indicators of performance are related to the current task.

Recently was developed a field of research that deals with dimensions of social accounting. A part of the more important business of the financial reporting³ is that of non-financial reporting, approached from the perspective of its responsibility towards shareholders but also to employees, to the society in general and also from the perspective of the sustainable development. Regarding the surprising performance by the financial information and the demand for such kind of information, it can be said that the financial accounting is subjected to the empire of a normalization geared specially towards the requirements of investors, as if maximizing shareholders wealth could be equal with the maximization of the wealth of all partners involved.

From the set of financial statements, the profit and loss account is the one that captures primarily the financial performance of the organization. However, the accounting result is not representative for the economic performance due to the necessity of compliance with accounting rules and "management" by its managers, practice called creative accounting. *"The balance sheet and profit and loss account are useful in assessing the (use) of tangible assets, proved unable to reveal the value of the "hidden"(immaterial) value of a company, but which represents its most important component"*.⁴

The difficulty of the estimation and of taking into account of the intangible assets, they are considered within management as the foundation for the value creation process, which is an important limitation of the financial accounting. Also, another limitation of it is the short-term vision (valuation of assets at their fair value favors short-term thinking, while within management focuses on a movement of attention for a long term).

The limits of the concept of shareholder value, the environmental risks closely related to environment and the social responsibility (which includes the

² Albu N., Albu C. *Clasicism și modernitate în utilizarea și utilitatea informației financiare*, p. 47, Finanțele întreprinderii.

³ Șendroi C., Roman C., Roman A.G. *Raportarea non-financiară: identificarea, evaluarea și administrarea informațiilor care nu țin de performanța financiară*, p. 911.

⁴ *Idem* 1, p.13

responsibility towards employees, but not limited to) are the limits of the concept of organizations' performances identified till nowadays as so far only limited like a classical and restricted notion of financial performance. In the economy of the future, the performance will be a global concept including the inter-relationships between internal and external parameters, quantitative and qualitative, technical and human, physical and financial within the management of a global socio-economic performance⁵. Subjective and multivalent size will characterize the performance, encompassing not only the quantitative dimension, but rather a qualitative one. As Albu N. and Albu C. wrote in one of their published articles, they affirmed that: "overall performance is the sum of satisfaction, in terms of financial and non-financial results, created for partners, including their level of confidence in the ability of the organization in order to produce the satisfaction of a sustainable manner (Saghroun and Eglem, 2004)".

In this context, the socio-economic trends require the notion of sustainability. Sustainable development reveals the importance of taking into consideration a long-term perspective, related about the consequences of current activities on global development in the future. The transition to a sustainable society requires not only a change in the way of which they manage their resources, but also a shift from an attitude such as: "me, now", which is characteristic for a traditional society and economy specific to a vision like: "I along with others, now and later."

In the academic environment, debates about *the sustainable development* are based on the following: The impact of the economic activity at a certain scale over the global ecosystem may be irreversible, even potentially disastrous;

The terrestrial ecosystems are complex and there were amplified within difficulties which they have to face, related to environmental issues;

The differences of income, especially between the rich them and poor nations are caused by a lack of responsibility to others and the guidance of "selfish" being firms, for the "managers' welfare", towards expansion and eventually to "enriching shareholders especially of the majority ones".

Some accounting specialists suggest that performance should be seen in the light of a wider **social responsibility** in business. *Social accounting means accounting firms circumscribed to a concern to all those with an interest in the organization (stakeholders) and not only to shareholders (shareholders)*. This theory argues that managers should serve the interests of anyone who is affected by the organization, ie

shareholders, employees, suppliers, customers, government and especially the wider community. Managers need to realize a balance between these interests, so an interest group does not be satisfied at the expenses of another. This satisfaction granted to other interests groups than shareholders would lead to the company's durability, or what is called sustainability (sustainability). "... *The concern in order to satisfy the needs of stakeholders' both financial and non-financial information, not just those of the shareholders, led to a broader perspective on the content of annual reports.*" There were social accounting concepts such as *corporate social responsibility, accounting and corporate social and environmental reporting*. These concepts aim to highlight the impact of organizations towards the society and to improve their social responsibility.

3. Conclusions

These new trends such as management and accounting are based on profound changes which took place in the society at the beginning of the millennium:

- Increasing awareness and morality and education of people involved in organizations;
- External pressures from some groups (e.g., Greenpeace) about the role of accounting to show how well organizations perform their *social role*.

Making conscient the fact that the selfish attitude of the people and therefore that one of organizations, owners and managers, and of a guidance towards meeting their needs and desires without concern for the others will, can, sooner or later, lead to disharmony and self-destruction (e.g., environmental destruction).

A full reporting should include all the values that the organization should carry out, in economic, social and environmental terms. Accounting must expand the traditional reporting framework so that does not take into account only financial results but also the performance towards society and environment.

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⁵ *Idem 1*, p.14