SOME INSIGHT INTO THE PERCEPTION OF ROMANIAN MANAGERS REGARDING FINANCIAL REPORTING QUALITY

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Abstract

In this paper, we aim to elaborate an examination of Romanian managers' perception regarding the quality financial reporting in order to identify their main points of interest in addition to determine definite inadequacies alongside with significant but yet neglected specific aspects of financial communication. Concerning the employed methodology, we made use of a questionnaire to collect our required information and we deemed especially necessary to request recommendations from our respondents on the matter of improving financial reporting quality. Our results bear a great importance in understanding additional factors related to the quality of financial reporting and thus should be relevant to accounting regulators, investors, managers, audit committees and stakeholders in general.

Keywords: quality, financial reporting, financial communication, accounting ethics

JEL classification: M40, M41

1. Introduction

Research on financial reporting as a means of financial communication emphasizes its irrefragable need for quality, accuracy, relevance and reliability. Moreover, the importance of quality financial statements is unanimously underlined not only by investors, but by accounting professionals and managers alike. Previous research has identified mechanisms that link reporting quality to the deadening of moral hazard and adverse selection, which are phenomena that hinder efficient investment endeavours.

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We must admit the fact that there also are obstacles that negatively affect financial reporting quality. Regarding this issue we make mention of Sophisticated terminology, the form and degree of transparency of synthetic accounting documents, the ability and speed with which potential users evolve into the accounting universe (Duțescu, 2000). We can also add the bias or subjectivity of financial reports providers, the existence and exploitation of legislative imperfections, the abuse of the flexibility regarding the choice between different allowed treatments and accounting policies, the non-correlation of used accounting principles and the deliberate presentation of a distorted image of a company's financial position of performance.

Recent studies on the topic of financial reporting quality focus on the influence of external factors to the accounting realm that however strongly impact the trust in the quality of the conveyed information through financial reports. In their study on 242 listed companies on the South Korean capital market, Choi and Pae (2011) have revealed that companies with a higher ethical commitment are less reliant on financial performance, reporting results conservatively and predicting cash flows with a greater accuracy. These entities are more open to disclosing and detailing their accruals, which are also largely confirmed by their future cash flows. At the same time, the authors demonstrate that the strong commitment to business ethics reverberates positively on the future quality of financial reporting. In this context, Korean companies see business ethics as an essential aspect not just a choice in their work.

2. Some insight into the perception of Romanian managers regarding financial reporting quality

The conducted research aims to identify their main points of interest in addition to determine definite inadequacies alongside with significant, but yet neglected, specific aspects of financial communication. This research is part of a more complex study, conducted on Romanian companies in the city of Sibiu.

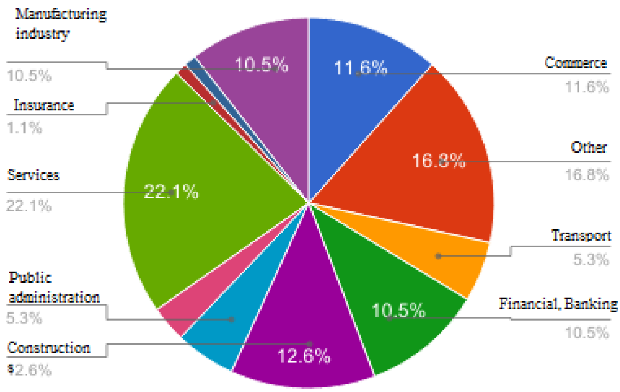
Given above literature and theoretical aspects of this topic, we decided to conduct a quantitative survey selective research, with the main objective of analyzing the perception of managers and accounting professionals regarding the quality of financial statements. Furthermore, our hypothesis derived from this core objective are:

- the compliance with the qualitative characteristics bears a great importance in financial communication,
- there are external factors that negatively affect the stringent need for quality in the reporting process,
- financial reports meet the qualitative characteristics to a large extent.

In order to collect the necessary data, we used the direct research method, the aim of the survey was unconcealed and disclosed form the beginning to the respondents.

Form the 95 respondents, 13.7% represented a large company, 40% a medium one and 46.3% a small company. Moreover, 86.3% are employed in a private company, 10.5% in a public institution and 3.2% in a mixed equity private – state. The surveyed companies activated in a variety of fields as shown in the following figure.

Figure 1: Surveyed companies by industry



Source: Authors' projection

The vast majority of respondents were managers (31.6%), followed by chief financial officers (12.6%), chief accountants (12.6%), economists (13.7%), accountants (2.1%), were shareholders or held a different position in the financial departments of the selected companies. Regarding their experience the biggest part had over 10 years of experience (66.3%), between 5 and 10 years of experience (22.2%), between 1 and 5 years (8.4%) and only 2.1% with little or no working experience. In regards to their age, 40% were between 30 and 44 years old, 31.6% between 45 and 59, 18.9% 18-29 and 9.5% over 60 years old.

We decided it was necessary to test the perception of the importance of qualitative characteristics of accounting information by applying a 5 steps Likert scale to the fundamental and enhancing characteristics. Briefly, the qualitative characteristics of useful accounting information, as described by the IAS/IFRS framework (taken exactly in the Romanian legislation) are presented in table number 1.

Table 1: Qualitative characteristics of useful accounting information

Fundamental characteristics	Enhancing characteristics
· Relevance defined by: ◦ Predictive value ◦ Confirmatory value ◦ Materiality · Faithful representation defined by: ◦ Completeness ◦ Neutrality ◦ Free form error	· Comparability · Verifiability · Timeliness · Understandability

Source: Authors' projection based on the IAS/IFRS framework

We received no abnormal answers, the vast majority of the respondents considered every characteristic to be of great importance. Consequently, we considered as valid our first hypothesis that the compliance with the qualitative characteristics bears a great importance in financial communication.

We continued by asking for the opinion on a few complementary matters. For the statement “does the quality of financial reports positively affect investment efficiency” 65.3% expressed total agreement, 31.6% partial agreement, only 3.1% did not agree with the assertion. For the statement “the qualitative characteristics of useful accounting information link the objectives of financial reports to the legal framework in order to maximize users' trust” 65.3% expressed total agreement, 32.6% partial agreement, only 2.1% did not agree. 85.3% of respondents totally agreed and 12.6% partially agreed that irrelevance, bias and distortion should not have a place in financial communication.

We proceeded with the objective to describe the view on professional judgement by letting the subjects to pick one or more response options. 62.1%

considered it should be logical, substantial and well grounded, 54.7% that it should respect ethical professional principles, 53.7% that it connects knowledge to experience, only 1.1% deemed it inconsiderable.

Subsequently, we asked our respondents to rank a series or constraints towards financial communication quality. The average of their responses led us to the following order, the first being the most impactful factor and the last the least damaging one, in the view of our respondents:

1. Transparency of reporting;
2. Imperfections of the regulatory framework;
3. Limited demand for financial-accounting information on the market;
4. Non-correlation of the accounting principles;
5. Freedom to choose between treatment options and accounting policies;
6. The subject of financial-accounting information producers;
7. Cost of production and dissemination of accounting information.

Furthermore, in order to further depict their vision on the matter, we asked our respondents to add other negative factors of this issue. Their answers were largely in the same directions as grouped in the list below:

- 39 would not add anything or did not answer;
- Subjectivity and deliberate manipulation of information for the direct benefit of the information producer; lack of transparency; inconsistency;
- Poor quality of primary information;
- lack of professionalism or poor preparation of producers of financial reporting; errors in determining tax debts; violation of legislation;
- lack of legislative predictability, imperfections and gaps in the regulatory framework; excessive bureaucracy; the related interests of regulatory bodies; lack of the obligation to use unitary accounting treatments; lack of intelligible explanatory notes; lack of performance measurement tools;
- the tendency to take account of tax regulations to the detriment of accounting; schematic reporting mode;
- short deadlines for submission associated with insufficient time to analyze and process data;

- limited access to real information; excessive statistical data; omission of significant information;
- the difference of vision between management and the financial department in interpreting figures;
- information through the media;
- heterogeneous IT systems;
- neglecting the qualitative aspect of financial reporting by users themselves.

By considering the results of these two items regarding limits, constraints and external factors, we proceeded to validate our second hypothesis that there are external factors that negatively affect the stringent need for quality in the reporting process.

The last section of the study was directed towards gathering recommendations towards improving financial reporting quality. The valid responses are grouped as:

- 36 would add nothing or cannot pronounce, and 2 are satisfied;
- better assistance from regulatory authorities;
- stability and clarity of the regulatory framework; the simplification of the accounting financial system considered too burdensome and cumbersome; disconnection from taxation;
- simplifying mandatory information and encouraging the publication of customized reports for each entity according to the specificity of the activity; inclusion of payment behavior information;
- approval of accounting software by regulatory authorities; correlation and integration of IT-legislation;
- clarity, transparency, objectivity, logic, avoidance of cosmetics in their elaboration; respecting the principles of professional ethics;
- better training of staff involved in reporting; increased attention in the selection of specialized personnel;
- improving the organization and development of best practices for professional bodies in the field of accounting and financial audit;
- decrease threshold and criteria for mandatory auditing financial statements;
- allocating a reasonable time for analyzing and processing data;

- standardizing accounting treatments to avoid subjectivity and harmonizing them more coherently with EU legislation and international standards.

Additionally, we asked our subjects if they are satisfied with the quality of financial statements elaborated in accordance with the Romanian accounting legal framework: 60% of them declared themselves satisfied, 29.5% partially and 10.5% were dissatisfied.

Due to the received answers in this last part of the questionnaire, we validated our last research hypothesis that financial reports meet the qualitative characteristics to a large extent.

We cannot state that in the incipient stages of the study we did not expect these results. Being accounting professionals ourselves, we were already familiar with a large portion of the insufficiencies of financial communication quality and the flaws of the financial reporting process, form an information providers' perspective and form a research and academic one.

3. Conclusions

In our view, considering the extensive diversity of reporting entities that activate in dynamic socio-economic contexts, financial reporting quality is admittedly influenced by the professional reasoning of the financial statements providers and emerges as an ineffable outcome of its users' subjective perception.

We believe that the cumulative fulfilment of the quality criteria of financial-accounting information passed through the well-established spectrum of professional reasoning will lead to a correct financial diagnosis of a company, the timely identification of deficiencies and would assist decision-makers in consolidating optimal solutions. At the same time, the continuous assurance of perfecting business ethics principles and the exercise of the profession could only have positive effects on increasing quality and confidence in financial reporting.

Moreover, professional reasoning is also a necessity, but if it is not properly grounded, it can itself be a hindrance to the quality of financial statements. In our view, especially in the context of the instability of the accounting and fiscal legal framework, as in the case of Romania, business ethics plays a pivotal role, being a solid benchmark in the haze induced by external factors.

Concluding, in our view, efforts to comply with the qualitative requirements of the international accounting framework should be a continuing concern of all stakeholders in the financial reporting process, users, accountants and regulators alike, as the reporting of relevant and truthful information strengthens users' trust. This leads to an increase in the efficiency of capital markets, better commercial relationships and a reduction in the cost of capital in general.

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