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THE ROLE OF THE PRESSURE EXERCISED BY ACCOUNTING INFORMATION USERS IN THE DEVELOPMENT OF FINANCIAL-ACCOUNTING ENGINEERING

Empirical
study

Keywords

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Users
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Accounting practices

JEL Classification

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M41
M42

Abstract

The work aims to indicate the methods and the determining factors through which accounting information users can influence the development of financial-accounting engineering. A series of defining elements were extracted, based on a study carried out on Romanian companies, concerning the manner of approaching creativity in accounting. Financial-accounting engineering occurred as a result of the pressure exercised by the accounting information users and of the desire to justify and underlie the company's business and results as attractively as possible. Based on the collected information, a series of elements were outlined, showing that an important determining factor determinant of financial-accounting engineering is the users' attitude towards the accounting information. Conclusions show, to a great extent, the confirmation of the initial assumptions, and the fact that the mechanism set off by the concerned individuals through what they excessively aim for uncovers vulnerabilities, and the management therefore acts to cover the users' need for safety, by granting special dimension to certain balance sheet items.

Introduction

The article approaches a very important issue relating to the influence exercised by the main users of the financial information on the development of financial and accounting engineering. Thus, the work puts forward an actuality subject representing an approach of research and provision of solutions for several aspects the accounting system deals with at the international level, relating to the use of the creative accounting.

The accounting practices matured during the years, but there are still a lot of ways by which the companies may hide their financial results. The article presents a research on the perceptions of the business environment persons on the quality of the financial and accounting information presented, the way the users influence the apparition and the development of the manipulation practices and the actions they may activate or initiate in order to limit this phenomenon. An index of the manipulation appears when the financial situations present excessively positive gains, in combination with the negative cash flow, in order to attract investors by presenting some favourable financial statements. Thus, the information quality is affected, and its user may be tricked relating to the company's financial reality. The information is the main fighting arm against the accounting distortions, and that is why the article proposes to identify the vulnerable elements within a company and to get the attention on them.

Current stage of the knowledge

Over the years, there were made a lot of studies and researches in order to know the respective phenomenon and it was tried the delineation of some definitions featuring these practices.

Manipulation notions delineating creative accounting items appeared in the Anglo-Saxon specialised literature, during the 70s, on the subject of the companies' failure, as well as in the articles written by Watts and Zimmerman (1990), which represent the basis of the positive accounting theory. If for some of the authors, the accounting creativity

represents "an assembly of procedures considering the change of the result level, in order to increase or reduce, or the presentation of the financial statements, without reciprocally excluding these techniques" (Stolowy, 2000), for others, it represents "the summation of the accounting techniques and operations which, without distancing from the accounting norm, allow to the managers of a company the modification of the result value or the change of the aspect of the accounting documents

In fact, the financial accounting engineering is a form of research, of analysis of several factors and of expression of an opinion on a certain phenomenon, as long as it is followed the benefit of the company and not the individual benefit, the activity continuation and its development. As K. Naser (1993) used to specify, this form of accounting appeared following the permissiveness of the accounting norms by the existence of several breaches providing the flexibility to being able to choose several accounting practices putting in a favourable light the company's activity. Thus, it offers the possibility of the user to see the accounting process in the prism of delineation of the result desired or expected.

Moreover, Dechow and Skinner (2000) assert that, even if the financial statements provide enough information to allow to the users to adjust certain indicators, they would still not constitute a reason to worry about the informational content value.

Dilip (2006) considers that the real stimulant of creative accounting is represented by the interest conflicts among different groups, for example, the case of the investors and shareholders wanting to obtain more capital and dividends gains, while the employees intend to obtain higher salaries and a high profit quota or the one regarding the shareholders who are interested in the payment of several reduced amounts relating to the dividend taxation, while the tax authorities of the country would like to collect more taxes etc.

Starting from this cause, the creative accounting notion was isolated by other

practices. An important differentiation is made by Jones (2011), who considers that it may be flexibility within the accountancy which also provides a real and faithful image on the accounts, in order for them to be able to serve the users' interests, but it also may take the form of some fraudulent financial reporting, when the use is for managing, measuring and present the accounts in order for them to serve the financial statements and the fraud interests, for giving a false image of the accounts.

In 2012, Loren Brandt, Johannes Van Blesberoeck and Yifan Zhang demonstrate in an article the destroying force that the accounting engineering may have on the company's current activity. The results of these researches show that certain items of the creative accounting practices are common.

Research methodology

Relating to the research methodology proposed, which was founded on the bibliographic documentation, it was followed the phenomenon systemic observation and the causes determining, followed by the data analysis, their synthesis and validation.

The work combines the quality and quantity type research, using particular methods, the documents analysis and the content analysis. In order to achieve the proposed objectives, we consulted a series of bibliographic sources formed of specialised books, accounting, fiscal and legal regulations, studies and articles published at national and international level by different bodies of the area, when elaborating an enquiry type quantitative research whose tool is the questionnaire.

The data presented in the research are also founded on a market research which had the purpose of identifying the opinion of the persons directly involved in the management of the financial and accounting activity within the companies. Consequently, there may be highlighted the similarities and differences between the perception that the accounting entrepreneurs and professionals have relating to the non standard practices, the way they see the accounting limits, the way the company's activity influences their use and their attitude

relating to their use in the relationship with the organisation and consumers. The research consists in applying a questionnaire comprising 19 questions, a number of 194 subjects in order to confirm the hypotheses presented, the results being processed by the SPSS programme. Thus, the questionnaire comprises a category of identification questions of the statute of the interviewed person within the company, as well as data about it, a testing category of the knowledge relating to the financial and accounting engineering, a category of questions to detect the attitude relating to these practices and another one referring to the presentation of the financial and accounting information relating to its users. The research is made on a representative sample, the subjects being chosen from different activity areas, in order to for the research to have a high level of trust. Thus, there were followed three directions, the knowledge of the users, their way of acting and their attitude relating to the theme approached.

Results of the research

One of the main working hypotheses staying at the base of the research is that according to which among the most important causes of the apparition of the financial and accounting engineering is the attitude of the accounting information users. Another hypothesis is the one according to which the managers are acting by the manipulation of the balance posts following the identification of the vulnerable points of the persons interested. Finally it is delineated another hypothesis by which it is highlighted the fact that an important arm in the fight against accounting creativity is given by the correct and responsible attitude that the users of the accounting information must adopt when analysing the situation of a company.

The accounting engineering has the purpose of improving the results contained in the financial statements in order to put in a favourable light the financial position and the performances of the company, using legal tools meant to make from the accounting information users real marionettes within the companies' hands. The creative practices are

particularly concerning the assessment of the stocks, the creation and/or reduction of the provisions, the capitalisation of the costs, the amortisation methods and the tangible assets' reassessments. These are chosen according to the purpose intended, particularly in key situations for the company, in order for the information presented to seem as credible as possible. The accounting manipulation techniques would not develop if there were not created situations to motivate such actions, consequently they being able to be included in the category of the effects produced because of too strict rules or requirements or because of the desire to provide to the "consumer" anything he wants. It means that the information does not show anymore "what it is", but what it "should be", the information does not longer derives from a reality, but from a production process, and the company, by its management, delineates a new area of activity, in a parallel, hidden way, but with visible effects, meant to produce an information.

The motivations staying at the base of the creative accounting

The reasons staying at the base of the creative accounting are very various. They may be unconventional, such as the desire to succeed in special economic conditions or may delineate the items staying at the base of financial interests. Given the fact that the financial and accounting information is a strategy tool at the hand of the managers, they are the first using the accounting engineering, in order to promote and support the image of the company they manage. The factors leading to the use of these manipulation techniques know a large variety and particularly look to:

- attract credits,
- keep the reputation,
- facilities of receiving and reimbursing the credits,
- keeping the relationships with the providers and clients,
- paying lower taxes and dividends.

Thus, it can be noticed that the reasons of initiating the accounting manipulation practices are in tightly linked with the users of

the financial and accounting information. Considering the fact that they are the main source of interest for the company, as business performance is greatly dependent on them, there came the need to impress and attract them through the created image. The main financial and accounting information users directly influencing the management decisions concerning the presentation of the financial and accounting information are presented at Figure 1.

The financial and accounting engineering and the pressures of the external users are tightly related, because each company has its own interests. But these interests are shadowed by the pressures which are exercised at each moment over their activity. The deepest pressures come from the part of the external users.

The pressure coming from the investors

The investors are interested particularly in the capacity of the companies to make future gains. They encourage these practices by the excessive importance they give to the accounting result. The investors do not represent a homogenous group. A part of the investors own within the company ordinary shares, and another one, preferential shares. Thus, the first category is interested in the development of the business, and the second one, in the profit safety. And as the management wants to give dividends as low as possible, then it uses the techniques of creative accounting.

The investors' attitude is very important when the management used the financial and accounting engineering. Following several studies, it was frequently noticed that the investors prefer the companies presenting light, but constant profit increases from a year to another. Thus, particularly the listed companies have hang-ups in publishing volatile results, with important increases or reductions. Consequently, it appears the "income smoothing" phenomenon (the smoothing of results) supposing the constitution of extremely high provisions and adjustments during the good years, and when resuming them to revenues in the weak years, to enrich

the reported profits. The excessive importance provided by the investors to the accounting result, to the detriment of other indicators, encourages the creative accounting techniques, in order to create and maintain the illusion of a constant progressive evolution.

Pressure coming from the State

The State, by the control and regulation bodies, is putting the deepest pressure. They do nothing else than disorienting and demoralising. The main issues are delineated around the unpredictable legislation and excessive tax system. They are added the multitude of taxes, duties and sudden contributions and modifications appeared in the legislation. Another cause would be the numerous codes, laws, government decisions, emergency ordinances, application norms, modifications and abrogation. These issues provide the perfect excuse, in order to manipulate the accounting figures. In this context, there is another weak link highlighted by the accounting standards. They are vague, inexact and interpretable. Thus, the current regulations allow this phenomenon, at least at limit. The companies take profit from the incoherence of the legislative regulations in order to facilitate according to their possibilities the tax charge. The tax system has also an important role, because the companies are not interested in reporting very high profits, because it will determine the increase of the debt concerning the income tax. Thus, a very important role in the development of the creative practices is played by the government.

In the public utility companies, the government allocating amounts for their good performance is interested in obtaining large profits, in order to decrease the prices. In these conditions, some of these companies are interested in choosing accounting methods leading to the profit reduction.

Pressure coming from the part of the commercial and social partners

The unsatisfying performances of the companies, due to the management incompetence, affect the commercial and social relationships. The managers'

incompetence. The incompetent managers focus their attention on the particular arrangements to the detriment of the business prosperity. Thus, there are damages of the company's results, the creative accounting becoming the only solution capable to mask this situation which may affect the relationships with the customers and providers.

On the one hand, we have commercial partners. The providers are interested in the way the company will be capable to achieve the financial obligations, and the customers are interested in the continuity of the company's activity. The management has only benefits from these relationships. From the providers – commercial credits, to customers – fidelity. If the company does not obtain satisfying performances, it is possible for the providers not to offer commercial credit, and for the customers to look for other providers. On the other hand, we have the employees, who are interested in knowing the performances and the perspectives of the company. They manifest interest particularly in the increase of the salaries and the security of the jobs. As the management prefers the investments to the detriment of the increase of the salaries, then the creative accounting techniques will act on the profit.

Relating to the management, the most important items are the remuneration and the monitoring of its activities. This situation appears when the getting of the revenues by the managers is correlated with the profit level or with the price of the company's actions. If the managers are remunerated according to the share price, the managers will be tempted to present financial statements to impress the exchanging market. In exchange, if their revenues are calculated according to the accounting result, the managers will choose those techniques permitting the maintenance of these rights at a high level. Given the fact that the managers-related prime is calculated as a percentage of the profit over a minimal level and is paid up to a maximal level, the following situations appear cf. Tabel 1.

Pressures coming from the bank creditors

The bank creditors are interested in the company's capacity to reimburse the credits. The Creditors may always decrease the reimbursing terms of the credits if the company's performances are not satisfying. Another pressure of the bank creditors is exercised at the level of the financing agreements comprising restrictions relating to the maximal amount which may be credited according to the size of the own capitals and to the debt degree (credited capital/own capital). In these conditions, the companies will be tempted to increase their profits as own capital item. And in this case, the management solution is given by the use of the financial and accounting engineering.

The role of accounting is constituted by the faithful image; thus, by accounting, it is intended the mirror reflection of the entity economic and financial reality. The financial and accounting engineering constitute communication techniques intending to improve the information provided to different categories of users, the embellishment of the financial statements and implicitly of the economic and financial performances. The financial statements are provided to several groups of users, each group judging them according to the objectives it follows. The different objectives and points of view of the company's partners determine a multiple and complex image, and not a faithful one. When there are established the accounting policies applying to the economic and financial transactions, there should not be considered the objectives followed by the different groups of interest, but there should be followed the need to reflect the economic and financial reality in the financial statements. Thus, it is highlighted the fact that the users themselves of the financial statements may contribute to the use of the creativity in the accounting by the excessive importance provided to the current result.

Conclusions

The management acts by means of the financial and accounting engineering at the pressure of the persons interested in the information presented; thus, it is chosen the

easiest way to achieve the purposes, that of manipulating the accounting figures.

The manipulation practices will only disappear with the disappearance of the causes which generated them, so that the desire of the accounting normalisations to limit the creative accounting must consider the circumstances permitting its manifestation. As a consequence, the mission of normalisations and accounting professionals is not a simple one: one should answer to imagination with imagination.

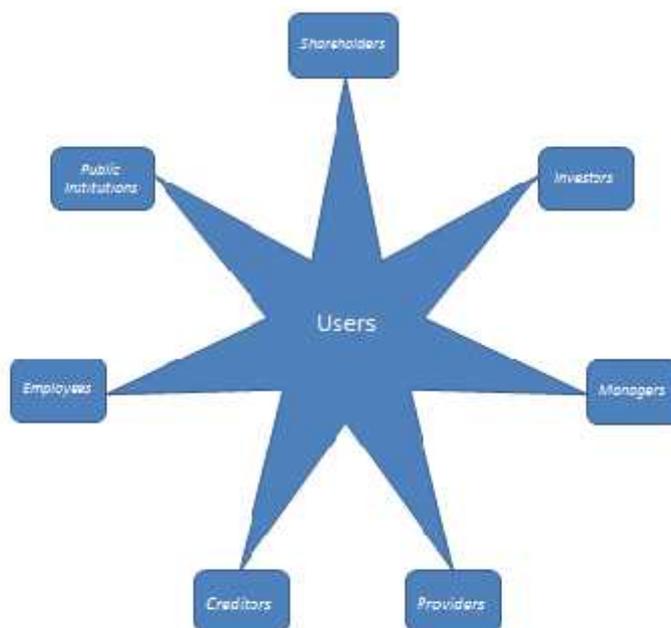
The financial and accounting engineering constitute a major challenge for all the accounting professionals to test the knowledge abilities and limits, but taking into account that they are used with the purpose of distracting the attention from the absence of the company's performances or their low level, in fact the tricking of the users, cause also the rejection attitude. It should be noticed that these practices are diversified and get larger and larger with the agreement of all those involved, manipulators and losers, because of the absence of agreements and frameworks of strict and detailed regulation, in order not to cause interpretations.

The working hypotheses are confirmed following the research. Both in the business environment and in the regulation bodies, there are resources which are available to the initiation of limitation procedures of the financial and accounting engineering, which are beneficial to the users of the financial statements, which may lead in future to a better performance of the business environment by guarantying the investment reality.

There are resources for the accounting manipulations' diminution; it is important how they are used, the agreement between the parties and the correct treatment. In an environment where there are several interested parties, the agreement, the communication, the correctness and the sincerity are very important items. If they do not exist, each of them mutually stipulates the weak points existing within the others in order to transform them in benefits which are favourable to them.

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*Figure 1: The main users of the financial and accounting information
 Source: created by the author*

Table 1. Manipulation methods according to the results

Results	Methods
Overpass the maximal limit fixed	What exceeds the limit does not produce additional remunerations, so it will be used for the increase of future bonuses. It may be achieved by the constitution of provisions which will be then resumed by revenues.
Situated under the maximal limit	Activities to increase the result up to the maximal limit
Under the minimal limit	It is used the “big bath” technique consisting in the increase of the loss registered during a year by the inclusion of future probable losses, allowing in this way to have superior profits during the next periods. It appears also when a new manager undertakes the management of a company, because there is the motivation to use this procedure in order for the small result reported during the first year to be interpreted as a fault of the previous management. During the next years, the profit is artificially increased, giving the impression of an improvement.

Source: created by the author