

VALUE REPORTING AND STAKEHOLDERS' INTEREST IN BUSINESS COMBINATIONS

COMUNICAREA EFICIENTĂ ȘI PROTEJAREA INTERESELOR INSTITUȚIONALE ÎN CADRUL GRUPURILOR DE ÎNTREPRINDERI

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Abstract. *The research article aims at evaluating the benefits as well as the limits of the most important control instruments used in business groups for the stakeholders' safeguard, taking into account the current situation and above all some recent law provisions and professional interpretations which have brought about important changes . The research intends to appreciate the significant role played by the system of internal control, consolidated financial statements, social and environmental statements for a better protection of stakeholders' interests in business groups.*

Rezumat. *Această lucrare își propune să evalueze potențialul și limitele principalelor instrumente de control pentru a proteja interesele instituționale în grupurile de întreprinderi, ținând cont de situația curentă și mai ales de recente prevederi legislative și profesionale care au introdus inovări semnificative. Lucrarea își propune să aprecieze contribuția pe care sistemul de control intern, bilanțurile consolidate, bilanțurile sociale și de mediu, pot furniza, pentru o protejare mai eficientă a intereselor instituționale în cadrul grupurilor de întreprinderi.*

The last companies' scandals and financial distresses, involving some national and international business groups, have been jeopardising the interests as well as threatening the efficacy of the instruments of control. In each case the common trait is that the companies involved were part of a business group. In this respect, the innovative feature of the research project is related to the most important peculiarities of some instruments of reporting and control in business groups (consolidated financial statements, systems of internal control, social statements).

MATERIAL AND METHODS

The research aims at having a clear understanding of the impacts of these particular instruments on the management, organizational and information areas for the safeguard of the stakeholders' interests. The research units involved in this article are clustered on the basis of the instrument of control considered and of the outcomes each unit has come up with in previous projects specifically pivoted on these topics. On the basis of the results generated from some previous researches, the working team aims at realising some specific objectives on a local basis and some middle objectives related to the single stages of the research programme.

RESULTS AND DISCUSSIONS

The coordination among the local units is granted by the common trait characterising their activity: business groups. What is more, all the research units share a common objective: carrying out empirical surveys for the evaluation of the efficacy of the systems of internal control, of consolidated financial statements, of social and environmental statements in order to endorse the safeguard of the stakeholders' interests, taking also into account the particular features of such documents within business groups.

The core idea staying behind the activities carried out by the three research units lays on a common finalism which considers the interests of each business entity as the interests of the group itself so as to believe financial results and social and environmental performances as complementary.

The inadequateness of such instruments is more evident when considering listed companies which are members of groups as holding, sub-holding or controlled companies. The safeguard of stakeholders in business groups can be attained with different instruments.

The instruments the research intends to focus on draw the attention on the process of production and distribution of the value.

Stakeholders will feel satisfied when the value produced by the group is fairly distributed among all the subjects who have directly or indirectly given their contribution to generate it.

The concept of value production is principally referred to the production of income and its related financial flows, but that is not all. Indeed the view shared by all the research units considers as production of value even the manner the company acts towards the environment and the society where it runs its activity.

Such instruments are crucial for every company but they become more complex when dealing with business group. Such an organisation is indeed more sophisticated due to the presence of several business units (which mostly take up the corporate form of partnership or legal persons) which boast a judicial sovereignty but are subject to a unitary economic guidance and direction.

The presence of several units renders more complex all the aspects of business administration (management, organisation and reporting) and – in particular – the aspect of control which shall permit a fair process of production and distribution of the value among all the stakeholders.

In many cases it might occur that a higher degree of complexity can make the control instruments more vulnerable, thereby blaming the utility of consolidated financial statements, systems of internal control, social and environmental reports.

An evidence is provided by numerous cases of financial distresses occurred in other countries, which share a common trait: being part of business groups as well as the inadequacy of their instruments of control.

In this way, the objective of the research is to appreciate the potentials as well as the limits of consolidated financial statements, the systems of internal control, social and environmental reports for the safeguard of stakeholders' interests by taking into account the recent corporate law reform which have brought in some significant changes.

The research by and large intends to appreciate the role played by consolidated financial statements, the systems of internal control, social and environmental reports in business groups in order to offer a valid instrument for the safeguard of all the stakeholders' interests in business groups.

Each research unit is entrusted with specific objectives which share the same attention for a common object: the instruments of control in business groups. The constant reference to business groups will enhance the integration and the complementarity between the research units.

Each working unit will concentrate on business groups or, more exactly on a specific instrument for the safeguard of stakeholders' interests in business groups.

The concept staying behind the research lays on a finalism of company and of group which permits to systematically combine financial performances with social and environmental results.

In conclusion, the three research units are going to use a unique research methodology which – following an inductive and deductive logic – will develop empirical analysis with the purpose of improving the efficacy of consolidated financial statements, of the systems of internal control, of social and environmental reports in business groups. Business group both on a national and international scale represents one of the most prevalent form of organisation of the economic activity.

The reasons which stay behind this success lay on the benefits business groups can grant to the "economic subject" in order to achieve good conditions of efficiency and efficacy both in the interests of the group and, in particular, of its shareholders.

The expansion of business groups both internally and externally sustains the development of a business, its dimensional growth, economies of scale, the control of the market and competition. Other advantages may be related to the possibility to haze the real boundaries of the business and obtain benefits of fiscal or other nature.

Many economic sectors provide several regulations (for instance, bank groups), even on some specific subjects (for example, consolidated financial statements, antitrust), however a unique definition of business group does not exist so far nor a general model.

The outcome of this is that the law does not consider the group as such but simply focuses on the companies which are part of it, such as the holding, the sub-holding, the controlled company.

Even the recent reform of corporate law seemed to be going to fill in such a void but later it failed to do so. Indeed, with regard to business group it has

merely set up a few provisions with the aim at regulating the relationships between the company which exerts the activity of guidance and coordination and the other companies which are subject to it.

A group – as every company – shall continuously and independently produce and distribute value for all its stakeholders.

A first glance of such value is provided by its financial performances; the production of the group is measured by means of the income and the capital of the group, consisting of the holding's, sub-holding's and the other controlled companies' quotas.

From a financial point of view the production determines flows of liquidity, working capital and other financial resources which consent to appreciate both the financial balance of the group in the short run and the financial solidity of the group in the long run.

However, the results of a group cannot be just identified with its economic and financial performances. As a social institution studied in their economic substance, groups also boast a social responsibility which is to be considered for ethical, moral reasons not to endanger their future financial performances.

The instruments used for the supervision of the group results (financial and social results) – as it happens in every company – are very important in order to ensure an accurate determination of the results as well as to allow all the users to understand the destination of such results.

Consolidated financial statements, the system of internal control and social reports are a good example of instruments for the control of the results. The former (consolidated financial statement) is essential in business groups.

The other two documents – in business groups – differ to some extent if compared with companies which do not belong to a group. The last financial scandals have endangered several institutional interests (for instance the shareholders, the creditors, the employees) and shed a dark light on the provisions included in the laws set up for the safeguard of the investors' savings and of other social interests.

The countries which have been involved in such scandals have acted in response and are still taking some serious measures in order to avoid the occurrence of similar situation in the future. In european countries several legal parameters have been introduced in regard with the regulation of the abovementioned instruments.

For example the Draghi Law, the Preda Code, the reform of the corporate law, the implementation of international accounting standards for the preparation of consolidated financial statements. However, all these provisions underestimate a crucial element: all the companies involved in financial scandals were part of business groups and such a circumstance probably and partially explains the limits of such instruments. The reasons staying behind scandals and other financial distresses which have lately occurred are numerous.

The studies in business administration are able to positively investigate on the reasons which might affect consolidated financial statements, systems of internal control, social reports. In particular, this research can help outline the peculiarities of the instruments of control used in business groups.

A clear understanding of them, in turn, can lead to positive proposals of improvements to be applied to the process for the preparation and the communication of consolidated financial statements and social reports as well as to enhance the quality of the systems of internal control in business groups.

During the last decade many researches and publications have been carried out in order to critically examine the theory on consolidated accounts as well as to understand the choices made by groups as for the determination of their comprehensive income and capital.

Such researches have indeed been playing a remarkable role in this regard as they have proved to be very useful for a correct interpretation of the law, for an accurate placement within the framework provided by business theories, as well as for a better understanding of the key communication and reporting areas related to business groups' consolidated financial statements.

The concept staying behind the research lays on a finalism of company and of group which permits to systematically combine financial performances with social and environmental results.

In conclusion, the three research units are going to use a unique research methodology which – following an inductive and deductive logic – will develop empirical analysis with the purpose of improving the efficacy of consolidated financial statements, of the systems of internal control, of social and environmental reports in business groups.

CONCLUSIONS

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As a matter of fact, the last companies' scandals and financial distresses, which have lately involved important national and international groups have shown that a remarkable gap exists between the consolidated financial statements and the real information requisites the stakeholders call for in order to safeguard their own interests.

Most investors have indeed felt disappointed with the control instruments, particularly with the quality and the value of consolidated financial statements.

Moreover, specific issues are raised by the fact that these systems have undergone particular development in the non-profit sector – especially social cooperation and development cooperation – which poses further questions

concerning the real capacity in terms of accountability of systems of ethical-social communication.

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