

**INVESTORS' PERCEPTION REGARDING
THE ROLE OF THE ECONOMIC ENTITY
IN REGIONAL DEVELOPMENT**

Abstract

This paper investigates the impact of the local and social responsibility policies promoted by the economic entity on their development. The hypothesis launched in this paper verifies if the implication of the economic entity in the local development generates new investments. The data were obtained by applying a survey on 47 chartered accountants who were randomly selected from CECCAR database and were processed using multiple regressions. The results are consistent with the hypothesis.

Keywords: economic entity, investors, regional development, social responsibility.

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**PERCEPȚIA
INVESTITORILOR ASUPRA
ROLULUI ENTITĂȚII
ECONOMICE ÎN
DEZVOLTAREA
REGIONALĂ**

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Rezumat

Această lucrare investighează impactul politicilor de responsabilitate socială și locală ale entităților economice asupra dezvoltării acestora din urmă. Obiectivul prezentului studiu este de a testa dacă implicarea entităților economice în acțiuni de dezvoltare a comunității locale are efect pozitiv asupra atragerii de investiții. Datele necesare pentru testarea ipotezei au fost obținute prin aplicarea de chestionar unui număr de 47 de experți contabili aleși aleator din catalogul CECCAR și procesate folosind regresia multiplă. Rezultatele obținute vin să susțină ipoteza formulată.

Cuvinte cheie: entitate economică, investitori, dezvoltare regională, responsabilitate socială.



1. INTRODUCTION

Accounting plays its role on a scene where two main actors are: the users and the producers of accounting information. In the offer – demand equation, the first and the last words belong to the user of the accounting information and not to its producer. Therefore, the adjustment and the improvement of the accounting, as well as its adequacy to the users' requisitions are a constant preoccupation. The objective of the financial accounting is to provide relevant and reliable information for decision making to a wide range of users through the financial statements. The Romanian accounting regulation identifies the following types of users of accounting information: current and potential investors, employees, creditors, suppliers and other commercial creditors, clients, government and its institutions, as well as the public. But finding that it is impossible for financial statement to satisfy the information need for all users had led IASB to modify the Framework, thus recognizing that the main users of financial-accounting information are only the investors and financial creditors.

The present study attempts to capture the connection between the implication of the economic entity in the local development and the attraction of investors. The paper begins by providing essential items for financial reporting captured in the literature, continuing with the presentation of research methodology regarding the empirical study conducted through a questionnaire, to conclude with the authors conclusions on the impact of economic entity's implication in the local development.

2. LITERATURE REVIEW

The objective of financial statements is to provide relevant and reliable information to a wide range of users. The main qualitative characteristics of accounting information in the financial statements are understandability, relevance, reliability and comparability. But the large amount of information which has to be presented in the financial statements, especially in the notes to financial statements, in many cases, can lead to loss of the relevance of accounting information. This is underlined when the users of financial statements are not very good connoisseur of economic area (particularly management) which leads to loss of the understandability of accounting information (Lee & Tweedie, 1975). Regarding the relevance and understandability of accounting information in the financial statements, Tweedie (1976) found that only a minority of shareholders carefully read the financial statements and notes to the accounts, the majority finding them too difficult to understand. In addition, the large volume of information which has to be presented involves costs for the entity.

Information requirements of financial statements' users are becoming more demanding and complex, directly affecting the accounting profession. The studies in this area show that the accounting information remains the most important source of information for bankers and for performance analysis of an economic entity (Bartlett & Chandler, 1997; Berry & Robertson, 2006) but its relative importance and use of accounting information in decision making has changed. The comprehensive income statement together with cash flow statements becomes the most important sources of information for performance analysis (Berry & Waring, 1995) outpacing the balance sheet and profit and loss account, considered until recently, the basic financial statements to analyse financial performance of economic entities. The focus is increasingly on information and forecast on how the economic entities going concern. In order to be more relevant, the financial statements should contain future information (Herry & Waring, 1995), but entity does not assume responsibility for the publication of such information. Nowadays the financial statements are the result of actions performed by the entity in the past, users being those who have to make predictions. Depending on how accurate are these projections, users can take the correct or incorrect decisions.

The increase of the financial statements quality can be achieved by reporting non-financial information concerning the protection of the environment and the employees (Admiraal et al., 2009). Regarding this aspect, other purposes for the accounting can be defined and other models for the financial statement have to be constructed. Young (2006) consider that these models should report the "health" of relationships between economic entities, employees, communities and the environment are given as much or more emphasis than are the measurement of cash flows, profits and financial position. Hussein (1996) focusing on the social, cultural, and political environment which is specific for every country, analyses financial reporting in the U.S. and the Netherlands, highlighting the fact that the cultural differences between the two countries do not affect the recognition and measurement criteria but the presentation of the information in the financial statements. In addition, Dutch companies provided significantly more disclosure of the environment and labour issues than American companies.

In order to provide more relevant information in making decisions process, the IASB and FASB have jointly developed a project proposal on amendment of reporting information in financial statements (IASB, 2009). But, analysing research proposal, we find that in fact it is a reclassification of information already presented today, and not by an improvement in information content of financial statements. Starting from the fact that more important is the fund (information presented in financial statements) than form (how information is presented), through this study we aim to identify information needs of users of accounting information in order to improve the reporting system of Romanian economic entities. The present study is only a starting point in offering a comparative point of view of the current

and potential investors regarding the importance of the financial statements because, is still room for a significant contribution because the evolution of human society focuses on social and environmental issues, these being already the focus of regulation bodies and, more than likely, they will be subject to future situations of financial reporting.

3. RESEARCH METHODOLOGY

The social responsible behaviour becomes now, in the 21st century a business card for every economic entity which is looking for performance. Now, much more than in any time the economic entities attempt to play an important role in their local environment, the place where they exist and perform. The actions which sustain the social responsibility of these economic entities become more and more interesting for investors. The financial reporting of national economic entities is more affected by tax reasoning than the information needs of actual and potential investors.

TABLE 1. - RESPONDENTS' STRUCTURE

Occupation		Age					Sex	
Name	total	20-30	30-40	40-50	50-60	>60	Male	Female
Director Economic	8	1	4	3	-	-	1	7
Chief accountant	4	-	2	2	-	-	-	4
Accountant	2	-	1	-	1	-	1	1
Economist	19	2	7	7	3	-	9	10
Loans Manager	1	1	-	-	-	-	-	1
Controller	1	1	-	-	-	-	-	1
Financial controller	1	-	1	-	-	-	-	1
Management Consultant	2	2	-	-	-	-	2	-
CEO	2	-	1	1	-	-	1	1
Senior accountant	1	1	-	-	-	-	1	-
Manager	1	-	-	1	-	-	-	1
Director Public Institution	1	-	1	-	-	-	-	1
Referent	1	1	-	-	-	-	1	-
Auditor	1	-	-	1	-	-	-	1
Unemployed	1	-	1	-	-	-	-	1
Financial director	1	-	-	1	-	-	-	1
TOTAL	47	9	18	16	4	-	16	31

The lack of financial responsible information inside the national investment area makes our attempt to concentrate on the survey of those who have the ability to analyse and filter the financial information in order to appropriate the investment decision – the chartered accountants (they have the possibility to know and follow the relevant aspects that for the large majority of the investors remain unknown, or at least ignored). This is the idea in which it was launched the research hypothesis:

H1. The implication of the economic entity in the local development leads to the attraction of the new investors

To verify the hypothesis, I used the multifactorial regression analysis that was applied on the respondents who have besides professional experiences (the title of chartered accountants) the investor ability. The research method used in this study is the questionnaire which represents a data collection method that includes a predetermined set of questions, built for information purposes or for opinion analysis, transmitted directly or by post to the respondents designated based on certain criteria. The respondents must fill in the questionnaire without the assistance of the researcher, fact that diminishes on one hand the response percentage, and on the other hand that imposes tracing the relevance characteristic in questionnaire questions formulation, fact that could ensure the short duration to be invested in order to answer and bring interest to the respondent. The format, content and way of expression are key elements of the questionnaire.

In order to shorten the response duration, we have made the questionnaire in electronic format, using the Microsoft FrontPage software. The electronic format of the questionnaire offers great ease in answering the questions through simple checking of one option (closed questions), although it also offers the option of personalized answer, where respondents consider necessary (open questions). The questionnaire abounds of closed questions, with the purpose of facilitating comparisons and analysis of the data collected, in order to ensure a better understanding of the questions and a higher relevance character for the developed study. The open questions, numerically fewer, but equally important in terms of data content gathered, have been used for testing more complex elements for which all answer options are not known and for establishing each respondent's own point of view. The questionnaire also comprises of identification questions and few verification ones. Questionnaire filling in errors have been minimized through the insertion of definite answering options to the questionnaire, using buttons that allow the choice of one single option under the form:

What is the importance given to the following components of the financial statements in providing relevant and reliable information to users of financial statements:

the most important	great importance	average important	less important
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
without any importance			
<input type="checkbox"/>			

We have used this type of questionnaire because of its advantages related to the attractiveness manner of questioning, unconditional in terms of time, accessibility, minimum subjectivism in the interpretation of answers and ensuring the respondents anonymity. We have considered, though, the limitations of a questionnaire based, reflected in lack of flexibility, small response percentage, lack of control over the studied environment, impossibility to catch spontaneous reactions.

The access to the CECCAR Bucharest (Body of Authorized and Chartered Accountants from Romania - Bucharest) database has been the factor facilitating the research and ensuring the e-mail addresses of potential respondents. The questionnaire was sent as attachment to an e-mail, method through which the respondents have been requested to participate in this stage of the study's development – recommendation letter (research presentation, purpose of the questionnaire, and objectives pursued within the study, relevance of the study in the field, institution affiliation – where we develop the research activity, the cordial invite to consider the request, to support our approach and to answer the questionnaire). On what it concerns the respondents we have included in the sample, in the first stage, chartered accountants from Bucharest Chartered Accountants Listing, listing that comprises data on 5.680 active members. From this total, as basis for discussion and subsequent development, we have chosen those that have the quality of chartered accountant and authorised accountants of at least 3 years, our sample reaching now the value of 2.000 persons (these becoming the targeted population). We have chosen the 200 respondents using systemic sampling, by listing the chartered accountants in alphabetic order and choosing the survey steps starting from the restriction of number of experts. For this activity we have used as work instrument Microsoft Office Excel for the alphabetic sorting process and the extraction of chartered accountants based on a given step. Starting from these considerations, from a total number of 5.680 active chartered accountants existing in the CECCAR Bucharest Listing, in the first phase of the sampling we have reduced the number to 2.000, from which, based on systematic sampling we have chosen 200.

We have waited for our respondents' answers to the sent e-mails and we have confirmed receiving the answer, along with thanks and all our gratitude, assuring them of the benefits of feed-back on our final research results with the perspective of future collaboration. We have received 189 answers which 3 have been incomplete and respectively eliminated, obtaining an answer percentage of 95%. In this reason, from the total of the answers received I kept for analyses only 47 (25% from entirely surveyed population). This represents one of the research limits, but, in the same time, is the chance for future studies on this subject.

4. RESULTS AND DISCUSSIONS

The discussion on the information presented in the Table nr.1 shows us an interesting diversification of the functions which are played by our correspondents in the economic entities. On this base, I could say that there are a large spectrum of functions, facts which gives the occasion to advance the idea of the representative sample of the economic entity structure. An aspect of this study, extremely important as the sign of the new Romanian investment area, is the ages of the respondents, 27 (58%) being younger investors (20-40 years). Another important one is the presence of male gender in total population – 16 (34%); in Romania the profession of accountant being feminized (85%).

In the Table 2 it can see the position of the respondents regarding the implication of the economic entity in the social life of the local community. The means of these items are very relevant for the aims of our research: new investments (3.36), join to the entity (4.04), social responsibility (3.23) and local funds contributions (3.63)

TABLE 2. - RESPONDENTS DECISION

Item/ Position	Item nr 1 New investments	Item nr 2 Join to entity	Item nr 3 Social responsibility	Item nr 4 Local financial funds contributions
Yes, most important	7	19	6	10
Yes great importance	18	16	15	18
Yes average imp	11	9	14	13
Less important	7	1	8	4
Without any imp	4	2	4	2
TOTAL	47	47	47	47

Much more, I wanted to demonstrate the connection between investments (item nr.1) and the implications of the economic entity in the local development (items no. 2, 3 and 4). To solve the analyses I used EXCEL/ DATA/ DATA ANALYSIS/ REGRESSION application, and the results presented in the next Table come to confirm the research hypothesis:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,4125868
R Square	0,1702279
Adjusted R Square	0,1123368
Standard Error	1,1012895
Observations	47

ANOVA					<i>Significance F</i>	
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>		
Regression	3	10,69900152	3,566334	2,940485	0,043695088	
Residual	43	52,15206231	1,212839			
Total	46	62,85106383				

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	1,7443745	0,71667617	2,433979	0,019162	0,299059254	3,1896897
X Variable 1	0,0742523	0,190629895	0,38951	0,698821	-0,31018949	0,4586941
X Variable 2	0,3531089	0,184318703	1,915752	0,062061	-0,01860523	0,7248229
X Variable 3	0,0481515	0,192022211	0,25076	0,803194	-0,33909815	0,4354012

I construct the regression for an $\alpha = 5\%$. From ANOVA Table we could see that the Significance F is 0,043695, fact which means that our model was validated. The value of R Square = 0.1702, which means that 17% of the variance of new investments (item no. 1) are explained by the implication of the economic entity in the local development (items no. 2, 3 and 4). The regression model will be:

$$Inv = 1.744374 + 0.074252 \text{ Join to Ent} + 0.353109 \text{ Soc. Resp} + 0.048152 \text{ Local Funds Contr} + \epsilon$$

5. CONCLUSIONS

From the perspective of the role, functions and importance, the financial statements serve different user groups in different situations. The ability in which the beneficiaries use financial information depends to a large extent by the person who analyses, interpret and provide solutions. As already stated, this study has proposed to offer the position of actual investors regarding the importance of the components of the financial statements. The regression analysis revealed that the implication of the economic entity in the local development means the new investments, means the new funds and means progress. This subject will serve as a warning of the importance of this kind of information, that someone will become much responsible to produce and to present such information and finally to conduct to an economic boom at the local and national level of economic and social life.

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