

POSSIBLE SOLUTIONS TO THE WORLD CRISIS. AN ACCOUNTING PERSPECTIVE

Daniela Ciotină

“Alexandru Ioan Cuza” University of Iași
ciotina_daniela@yahoo.com

Cristina-Ionela Fădur

“Alexandru Ioan Cuza” University of Iași
cristina.fadur@yahoo.com

Abstract: *Purpose – Our aim is to seize the essential aspects of the economical-financial environment and the alternatives that the companies have in their confrontation with the current challenges, the reorganization of the company being regarded as an option for ensuring the continuity of their activity. We have also been interested in the issue of intangible assets, which lie at the basis of the process of value creation by the company. Methodology – The article is a critical review of the process of reorganization and of the importance of the intangible asset, providing a personal perspective. Conclusions – The process of reorganization is no longer an option, but an essential condition for avoiding the disappearance of the companies from the market.*

Key words: reorganization, reengineering, mergers, intangible assets, economic crisis.

JEL Classification: M41

*Those who have the privilege to know
have the responsibility to act.
Albert Einstein*

1. INTRODUCTION

In the chaos created by opening a new “Pandora’s box”, from which unstoppable monsters have emerged (with a more complex gear than that of the 1929-1933 crisis), it is necessary to perform a fundamental analysis and to radically redefine companies in what concerns the cost, the quality, the service and the rapidity of the processes.

Economists may prove, using graphs and figures, that the current economical-financial crisis was to be expected. The cyclic nature of economy will always lead to the same result. However, the solutions to diminish the effects of the crisis are in our hands, as a result of the experience acquired and of the lessons provided by history (Mortreuil, 2010).

The dynamic nature of the economic environment where commercial institutions perform their activity determines a sequence of quantitative and/or qualitative transformations, which can be generically called restructuring. The economic concentration, the economic development in industrialized countries, the technological evolution, the globalization of the financial markets, the access conditions on international markets, can be just some of the causes that determine a company to start the restructuring process. In competitive conditions, the entities attempt through various types of *concentrations* to protect themselves, to ensure control over supply and sales, to annihilate their rivals, to reduce the possible business risks, and to develop.

We should not forget that the profound mutations of the current economic context have led to a reanalysis of the strategic plans, to a rethinking of the vision on the future of the business, and the companies had to engage in a mission to reinvent their work procedures. The business environment undergoes a fast transition process towards the new economy: the intangible economy.

2. THE INTANGIBLE ECONOMY

The end calls for a new beginning!

World is dominated by the power of the mind. We live in an information era, in an economic environment based on knowledge, in a global network society. The industrial era is over, and knowledge claims its right in the intangible economy.

Considering that information is the key resource of a company, the strategies adopted by managers have to allow the transition from the industrial organization, where everything is measured in terms of physical and financial assets, to the knowledge-based organization. The old battles for natural resources are still under way, and to these there add the new battles pursued in order to attract talented people and to explore the power of the brains, and their result is decisive for seeing the direction towards which the scale of the power is inclined. Organizational culture must embrace creation, innovation, transfer, and the reuse of information and knowledge, and the accounting system should allow reflecting all these transformations.

In the context of the current economic crisis, managers should focus on the effective usage of the intellectual capital, a latent source of value creation. Now when the developed economies face a recession wave, old questions regarding the nature and support of value creation by the company are asked again. In the past, these questions have received an answer through investments in physical assets. Today, the same questions are answered through investments in non-physical assets, and intellectual capital is the currency of the new millennium.

In order to use as efficiently as possible the intangible assets as new engines that create welfare in a society based on knowledge, we should move away as much as possible from the old

engines of the industrial economy, which, in their turn, have replaced those of the agricultural economy.

We live in a society of knowledge, where competitiveness depends on the efficient and effective management of intangible capital, knowledge meaning in itself power; the economic environment is under continuous transformation, as the economic crisis in the last two years has led to an analysis of the role of accounting as a universal business language. Non-physical assets account for over 70% of the total assets of companies; the prediction of the risk of bankruptcy based on financial and non-financial indicators is the *sine qua non* condition for preventing the appearance of financial debt, which would inevitably lead to suffocating the commercial channels.

Intangible resources and intellectual capital are essential conditions for a sustainable competitive advantage and for long-term development. The new economy requires the transformation of the traditional accounting system, and new methods to measure both tangible and intangible assets.

Accounting has to give up the ancient measuring and evaluation methods, as reserve in acknowledging and exploiting the intangible side of the business becomes an obstacle to increasing the performance of the organization.

3. THE PLACE OF ACCOUNTING IN THE CURRENT ECONOMIC CONTEXT

Is accounting “Achilles’ heel” of economic stability? How much of the guilt can be attributed to the discipline we serve? Many opinions claim that the world crisis was determined by a lack of confidence in the financial statements, as well as by the great economic scandals. However, neither creative accounting from the period of the economic boom, nor the great frauds, which have shaken the financial system, are the real causes of the current problems, but the natural consequences of the pressure exerted by the market upon the companies (de Soto, 2010). Accounting is the universal language of business. Adopting the International Accounting Standards has meant giving up the traditional principle of prudence in favor of the principle of the just value in the evaluation of assets, especially of the financial ones.

The main role in approaching the principle of prudence is played by investment brokers and, generally, by all the actors interested in “inflating” the net accounting value up to the level of the just value, resulting in artificial raises of the asset value. The purpose of accounting is not to reflect an assumed just (subjective) value in order to obtain a faithful image of the performance of the company, but to allow making prudent decisions and to prevent capital consumption. The guilt of accounting is that it gave up prudence to reflect a volatile value, a market value, often determined subjectively, requiring managers to take risks of unknown dimensions.

Then, is giving up the just value a possible solution to the economic crisis? Great problems require radical solutions. The problem of the just value will receive as an answer both favorable and unfavorable arguments. The seismic shock caused by the crisis has a scope that is difficult to fix between safe pins. It is hard to believe that going back to prudence is the solution...

4. REORGANIZATION – A SOLUTION TO THE GLOBAL CRISIS

In the economy of the new millennium, there can be seen an intensification of the rhythm in which the reorganization processes take place. In this context, it is necessary to stress the modeling processes based on typological structures of the relations that are established both between the companies already existent on the market, and within the same company, between those who make business work. Organizational reconfiguration develops lengthy approaches in the market mechanisms and is a process that allows the company to continue its activity more efficiently and effectively, in an economic environment characterized by permanent change.

Perhaps the only way to survive in the chaos generated by the economic crisis is rethinking the organization processes both internally and externally. In the conditions of a lack of crediting, of the limited number of customers, of burdening taxation, of highly diminished export activities, reorganization is a solution to the current economical and financial problems. We can consider the reorganization process as a catalyst for optimizing the business processes, since it allows new collaborating methods. Reorganization can concern a merger process or a remodeling of the existent organizational processes.

As time passes, technological progress requires an adaptation to the new environmental conditions (economic, social, human). Just like a chameleon, the national economic environmental could fit the world-level tendencies: small and medium enterprises will be able to survive by combining their material and financial resources, through collaboration projects and mergers.

Mergers and acquisitions (M&A) are, nowadays, frequent events in organizational life. The two terms are normally used alternatively in strategic investment decisions, requiring a distinction between the two notions. Mergers imply two entities of relatively equal size, which create a new organization by combining the best in both entities. An acquisition is a process much easier to achieve, supposing the development of an already existing company through its combination with a much smaller one.

In the current landscape of the business environment, where the great swallow the small and the weak allow themselves to be bought by the strong, there appears the opportunity to acquire prestigious companies at a reasonable price. Whoever has money can buy good business at a price equivalent to 25% of the amount they would have paid before, as the merger represents a solution to

the lack of liquidity. In the context of the world economic crisis, mergers become a necessity, not a luxury.

As the economic crisis deepens, financial markets are subject to a volatile and insecure environment, entering a vicious circle of paying their debts by selling their assets and lowering prices. This situation leads to an increase in the number of mergers and acquisitions worldwide. The M&A activity is one of the solutions that governments may use in the current context. The year 2009 has been characterized by the reduction of giant offers, smaller offers being encouraged, so that very large companies have acquired their competitors weakened by the collapse of the credit market (Ravichandran, 2009).

There are numerous causes for which a company chooses to merge or to acquire another company. These reasons span from considering mergers and acquisitions as a motivated implementation of strategic decisions, to volatile dispositions and selfish manifestations of the management of the organizations with a very good financial position.

We can state that Romania is still in an incipient stage in what concerns mergers and acquisitions. During financial crisis, the number of mergers and acquisitions in Romania has increased considerably in comparison with the 10 years before the crisis, while in other European countries (Great Britain, France, Germany, Italy, Croatia, Bulgaria, the Czech Republic, Hungary, Poland, Greece) the number of mergers and acquisitions has not altered (Cernat-Gruici, Constantin and Iamandi, 2010).

On the other hand, companies have another option that allows them to survive in the current economic environment. Companies should focus on a rigorous process of internal reorganization. *Business process reengineering/redesign* is a new management approach that aims to obtain benefits by increasing the efficiency and effectiveness of the business processes that exist within an organization or between different interacting organizations. The *reengineering* process is likened to “old wine in new bottles”, and this plastic comparison seizes the essence of this concept (Weicher, 1995).

The term *reengineering* or *business process reengineering* can be defined as a radical redesign of organizational processes in order to obtain major improvements, such as: reducing the work time, decreasing costs, improving quality.

This method is used in change management, applied in organizations where the pressures of the external environment impose them to change, in the direction of a radical improvement of their performance. This approach places the accent on the diagnosis of the current situation and determines the ways through which performance can be improved. More concretely, the improvements consisted in a careful and minute revision and reorganization of the processes, structures, and technologies.

Business reengineering means starting all over again, from the basis, changing in a fundamental, radical, and spectacular manner.

A *business-reengineering* situation could be as follows: company X ranks second in the world in siderurgy; it closes down but does not fire its staff. It sells all its fixed means and retrain its entire personnel. It buys other fixed means, and after a year it reopens and, shortly, it ranks first in the world in marine drilling.

Renunciation of the old ways of “making more with less” is a first step, but organizational reconfiguration is more ambitious than a simple reorganization. It does not mean an improvement of the existing processes, but giving them up and replacing them with new elements (Tabără, 2006, p.382).

The causes of the world crisis are multiple and complex. Solutions to the current economic crash cannot be found through cause and effect analyses. The crisis can be attenuated by correcting the factors that have triggered it, but it cannot be completely eradicated.

“The financial schizophrenia”, generated by the fact that monetary institutions set two disjunctive objectives – reducing inflation and injecting the necessary liquidity into the economy – requires finding immediate solutions that would ensure the continuity of the company’s activity. In our opinion, a compromise solution to the insecurity of the business environment is merging with other companies.

5. CONCLUSION

In the new economy, the success of a company no longer depends on the production factors and on financial capital, but it is ever more conditioned by immaterial, intangible values, known as non-physical assets. But although the business world has suffered significant mutations in time, the accounting system is still dominated by traditional production factors, ignoring the importance of knowledge as a production factor and as an element of the financial health of the organization. Knowledge is not subject to the traditional economic laws: if most physical assets depreciate and lose value as a result of their usage in the economic activity, the use/reuse of intangible assets increases their value.

The current economic situation generates new opportunities for those who will know how to capitalize on them best. The “typhoon” that is shaking the present world economy strongly affects the business environment. For a business, the efficient and timely management of the disorders caused by the crisis may make the difference between bankruptcy and survival.

In conclusion, the only way to survive is to rethink the organizing processes both internally and externally. In the context of the lack of crediting, of the low number of clients, of pressing

taxation, of long diminished export operations, reorganization is a solution to the current economical-financial problems. The complexity of the events prevents us from considering reorganization as the only answer to all problems. There is no universally applicable solution. Each company must calculate its costs in order to see which scenario fits it.

REFERENCES

- Cernat-Gruici, B., Constantin, L.G., Iamandi I.E. (2010) *An Overview on the Romanian M&A Market during the recent Financial Crisis*, The Romanian Economic Journal, Year XIII, no.37, pp. 167-178.
- de Soto, J.H.(2010), *Economic recessions, banking reform and the future of capitalism*, article presented at the conference *Globalization and Higher Education in Business Administration*, organized by “Alexandru Ioan Cuza” University, Iași, on 21.10.2010.
- Mortreuil, L. (2010) *The current crisis: who is to blame?*. Journal of Management Development, Volume: 29, Issue: 7/8.
- Ravichandran, K. (2009) *Effect of Financial Crisis over Mergers and Acquisitions in GCC Countries*, accessed on 19 October 2010 at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1360249.
- Tabară, N. (2006) *Modernizarea contabilității și controlului de gestiune*, Editura Tipografia Moldova, Iași.
- Weicher, M., Chu, W., Lin, W.C., Le, V., Yu, D. (1995) *Business Process Reengineering Analysis and Recommendations*, accessed on 19 October 2010 at <http://www.netlib.com/bpr1.htm>.