

Hidden elements of the recent past global financial crisis

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.” Machiavelli

1. Introduction

This paper is prepared in reaction to the recent past global financial crisis. It will explore accountants' role and related tools of trade, the accountant's duties in validating and processing quality financial information that matches quality inputs for clients' desired outcome of the company production process. The paper will examine the role of company management on successes or failures, and misguided actions of company employees. It will also provoke ideas from peers for improvements, to strengthen new thoughts and directions to mitigate business failures. The term accountant is used to describe professionally trained and duly certified accountant(s).

2. Lessons of the recent past financial crisis

National, Regional, continental or global financial crisis are not new to the human race. What made the recent crisis stand out is that, it intrinsically affected industrial nations almost simultaneously, with the effects escalating to non-industrialised nations gradually. Emerging technologies, which rapidly embraced ecommerce, and the ambition of trading concerns to grow and capture international business, are some of the driving forces. The crisis has opened the eyes of the business community with the following highlights:

- a. Business regulation is outdated, and countries and regional blocks needs to revisit their business and financial regulations;
- b. The emerging global business environment will respond better to global regulation, than regional regulation;
- c. The excesses of business executives, and related bonuses, was taken for granted by investors;
- d. Governance rules, and their applications were weak;
- e. Financial houses over-traded, ignoring internal risk management services;
- f. Not all business models developed by management or consultants were tenable;
- g. Investors did not take an active role in monitoring their investment, then relying completely on management, and when the chips are down, management simply lost their jobs, and may be hired elsewhere while some investors lost life-time savings, due to the adventures of management.

3. Dynamism of the business environment

Dust seems to be settling, with the past financial crisis being blamed on one industry element or the other. The emerging business environments need constant changes, and reviews of traditional settings to make sense out of the just past financial crisis. Even as it is the case today, most troubled financial houses are results of internal operational systems, elements and practices, and some combined with external influences of raw material suppliers, and service providers.

An African proverb says when 'a toad jump in the daylight time. It is being chased or free - ranging for food'. That traditional wisdom is void of emerging climatic changes. The wisdom neglects ecological hazards influencing the amphibian's life styles. Should

this be the case in the business academic world? A corporate actor who misguides business transactions for personal and selfish aims should take appropriate responsibilities, for their criminal acts, that help to derail the company's mission.

Formerly it was presumed that apart from fine-tuning. Tomorrow would be very similar or the same as to day. Today, as *Peter Drucker, a management writer*, pointed out in one of his books, 'The age of Discontinuity', the nearest thing to certainty is that tomorrow will be different from yesterday. This paper is calling for each corporate actor to take responsibility for misguided, selfish actions in discharge of company business.

4. Corporate elements necessitating change

As the dynamic evolving business environment is progressing, company management and the implications of their actions, must take central stage in matters of organisational performances. In instituting preventive measures to fight financial impropriety, and public affairs management, anti money laundering legislations, implemented in some jurisdictions, now highlights the role of "Politically Exposed Persons" (PEPs). Accountants as key professionals, and players in corporate management, should direct the way forward for internal performances.

For the purpose of this paper, new terminology for corporate players, here called 'Transaction Process Persons' and the Accounting History makers (AHMs) are introduced.

5. Definition of new terminology introduced by this paper

Transaction Process Persons are employees and external suppliers of goods or providers of services. Their activities on business transactions by implication may be faulty, conveniently design by the actors to defraud the organisation. TPPs initiate and facilitate the acquisition of goods and services. TPPs validate value accounting documentation leading to the production of financial statements.

Accounting History makers are suppliers of materials or providers of services, they raise and furnish the organisation with source financial documents. Accounting History Makers (AHMs) interact with corporate players and some of them can influence corporate players negatively for selfish and personal gain than service to the organisation. Conveniently, design fraud benefits the individual and the organisation losses, both in financial, merchantable quality and eventual disappearance of a loyal customer base.

TPPs and AHMs were among the key players in at least some of the troubled companies. Unfortunately, these corporate actors are always behind the scenes. Some thinkers have attributed crisis to "untenable business models." This paper believes that poor quality inputs contributed to financial crisis.

To improve quality, accountants call for strong internal controls. This is because every company, business or organisation whether big or small is not immune to crisis, either because of staff frauds, errors or carelessness. For these reasons, annual losses to companies are enormous. What role do we estimate that these cause to troubled companies? The buying centre concept and the Decision making Unit (DMU) will better explain the roles of TPPs and AHMs, in the organisation.

6. The buying centre concept and the corporate purchasing Decision Making Unit (DMU)

A major characteristic of organizational buying is that it is a group activity, and only rarely does a single individual within the organization have sole responsibility for making all the decisions involved in the purchasing process. Instead, a number of people from different areas and often with different status are involved either directly or indirectly. Webster and Wind (1972, p. 6) have referred to this group both as decision – making unit (DMU) of an organization and as the buying centre, and define as ‘all those individuals and groups who participate in the purchasing decision – making process, who share some common goals and the risks arising from the decisions’. There are, they suggest, six roles involved in this process, although the same person may still perform all six roles:

- i. *Users* of the product or service, who in many cases initiate the buying process and help in defining the purchase specifications
- ii. *Influencers*, who again help to define the specification but also provide an input to the process of evaluating the alternative available
- iii. *Deciders*, who have the responsibility for deciding on product requirements and suppliers
- iv. *Approvers*, who give the authorisation for the proposals of deciders and buyers
- v. *Buyers*, who have the formal authority for selecting suppliers and negotiating purchase terms (see)
- vi. *Gatekeepers*, who are able to stop sellers from reaching individuals in the buying centre(these can range from purchasing agents through to receptionist and telephone switch board operators)

Although Webster and Wind’s categorisation of buying centre roles is the best known and the most widely used, a variety of other analytical approaches have been developed. Hill (1972), from examples, has argued the case for analysing the buying centre not based on the participants’ roles, but based on functional units. There are, he suggest, five such units:

- *Control units*, which are responsible for the policy-making that influences buying and imposes certain constraints – these might include buying (where possible) only from British suppliers or from local small firms.
- *Information units*, which provide information relating to the purchase
- *The buying unit*, which consist of those with formal responsibility for negotiating the terms of the contracts
- *User units*, consisting of anyone in the organisation who will be involved in using the product or service
- *The decision-making unit*, which consist of those in the DMU who will make the decision.

Of these elements, the control, information and decision-making units are of best purpose for the organisation. Hill believes these are important in influencing buying decisions. Of these analyses, the most important is the exercise of professionalism in taking a decision to buy.

7. Doubts on company management (indoor-management) role

In the troubled companies who initiated the acquisition of poor inputs. What blame or liability is management taking for financial failures. What were and who designed the personnel policies in place. Were personnel policies adequately designed to guarantee a performing company? Were the marketing policies appropriately thought-out and

implemented? Is it the accountant's competence to ascertain all categories of quality inputs?

What liability are service consultants taking for financial failures? What liability are process development consultants taking for financial failures? What liability is marketing and promotional expert taking for financial failures? What liability are suppliers of goods taking for financial failures?

8. Merchantable Quality, clients and the accounting transactions

Accounting transactions relates to financial source documents, which are the results of the business negotiators. Arguably, over 75% of fraudulent business dealings, results from source documents. From time to time, fraudulent manipulations, usually reported in corporate procurement procedures. In some cases, it is either sub standard goods or services supplied, and known to both supplier and receiver, for selfish financial gains to the parties in question. Where this happens, and supplies were inputs into the production process, then output quality is compromised. In which case, the clients have no choice than to look for alternative goods, or services. This leads to decline in company sales, and eventually financial crisis ending up in closure.

It is the merchantable quality that customers needs and go for. When it is no longer there, they go away and give way to the company to collapse. To produce quality, involves raw materials, the people that produce, the products, the production processes, etc. The role of the accountant in the process of production, to safe guide quality standards is as follows:

9. Organisational Performance and the Accountant

Results oriented organisations are moving into the future because they plan and carry out successful projects. Projects are short term or long-term tasks assignments with activities directed towards achieving organisational goals. A project may be plan to produce goods, process a batch of goods, accomplish a plan service, etc,

The difference between poorly performing organisations and successful ones, lies on how projects are planned and executed. Central to supporting project execution is the organisational mechanisms and especially the effectiveness of internal communications, and the avoidance of bureaucratic structures.

Projects by their nature are quantified, properly determined and achievable sub units of an organisation's goals. Based on timelines, with clearly defined tasks and proper resource allocation, each project moves the organisation towards accomplishing its mission.

Project inputs of people that work for the organisation and material must be of Merchantable Quality (MQ). The MQ in goods and services gives the organisation the mandate to continue in business. Clients are very conscious of quality to maximise resources. When the quality of goods or services depreciates, a client will seek alternatives elsewhere.

10. Certified Project / Executive Accountants at the centre of organisation's activities

The professional accountant designs and installs sound financial systems to accurately capture and process information relating to each project. By nature of the profession and functions, accountants are at the centre of every action that the organisation takes.

They plan and direct resource allocation to guide the organisation, and cost effective actions. By nature of assignments, accountants are better equipped to monitor the Merchantable Quality of project inputs, as a leeway to guaranteeing the quality of projects outputs.

11. The certified accountants' tools in trade

Duty of care

Professional ethics are a prime differential between professionals and ordinary people. Professional ethics form the foundation of accountancy practice. Accountants therefore attach a lot of importance to ethical matters. The certified accountant has a moral responsibility to do his work properly. He owes a duty of care to his conscience and to any person who may rely on his work. While morality is a matter of personal conscience, ethical code helps to shape professional behaviour. There may be no decreed guarantee that all accountants should behave ethically. This is because human beings are creatures of habit. Some professionals may change as the evolving materialistic world demands. Those pseudo-professionals drag the profession through the mud. This "mercifully" is usually, overridden by low professional moral. An auditor may fail to exercise due professional care by being negligent. Where this happens, the accountant is legally required to take his responsibility for professional misconduct. How an accountant dedicates him/her, self to work lies on duty of care.

Due professional care

This refers to the individual concentrating in doing his/her job properly. A certified accountant applies due professional care to his/her self the same as for clients. A lack of professional care is gross negligence. This is a case of reckless abandonment, which can lead to discrediting the profession.

Care for employers or clients

This is the type of care relating to the objectives of the company clients. The objectives of company suppliers may take the accountant to the wrong direction. Accountants have to be careful and watchful when carrying out their duties of receiving and treating source documents. An ethical professional should not be turned around by third party emotions and fraudulent behaviour.

Care for the public

This is care for our audience and users of financial information. Those affected by our actions and professional life. Audience here is in a wide context. Therefore, accountants should be careful in performing their duties. They should watch out for creative accounting practices and the circumstances. Conservatism is a watchword in all situations. Care of the public is the domain of the accountant. A service to the people he is mandated to be of value. Care will manifest itself as an attitude of service in the right proportion and normal practice.

Care and the professional's integrity

Integrity is an attitude that guides individuals towards uprightness. "Integrity" says Lord *Dunnings*, is more of honesty than truth. Professor *Dunnings* propounded that there is a thin line between integrity and truth. While honesty connotes trustworthiness, the former represents facts and actuality. To be able to measure integrity, *Dunnings* says there must be a subsisting arrangement or agreement.

12. The way forward

Designing and regulating preventive measures against financial crisis should take a holistic approach. Central to this, should be the internal company management. Management engages supplies and services, and the implications of quality of supplies or service provision could mean the end of the company. The company Management team, which facilitate inflow of goods and services into the organisation, the suppliers and service consultants, be accountable within a timeframe, for which their products or services will have effect on performance. Specifically, this paper calls for:

- 1) Furniture and Equipment suppliers held responsible for poor performances, leading to crisis. The time limit for the supplies liabilities should be equal to and proportionate to the straight line depreciation of the equipment;
- 2) Suppliers of inputs of raw materials held responsible poor performance and client decline. Suppliers' liabilities should be proportionate to their volumes of supplies in relation to other suppliers' volume, and total inputs received for determine timeframe should determined by juridical regulation.
- 3) Service consultants' liabilities are determined in proportion to all services consumed and, the proportion of management's judgemental actions, and level of service application.
- 4) When crisis occur, the timelines for clients decline, be analysed, and management of the resulting periods accountable
- 5) Investors interest must be, and be noticed to at the forefront of all management actions and concerns
- 6) Management must guarantee the quality of goods and services, to attract and maintain a loyal customer base, customer decline at any particular time must cause an alarm.

11. Conclusions

The functioning of companies is directly link to the activities of corporate players. Corporate players include and interact with, Transaction Process Persons and Accounting History Makers. The actors' actions must guarantee the safety of investors' funds. Of all corporate players accountants stands out from the crowd. Certified Accountants have the right training and abilities to guarantee quality service. Professionalism had been and will continue to be the accountants' principal tool in trade. Accountants are among other corporate players of the company, when they do their job as professionals, quality is guaranteed, but where members of the corporate team fail in their own assignments, and then the accountant has wasted their valuable time.

Financial crisis that took the world by surprise were avoidable, if corporate players were truly professionals and played their roles as required. Negligence of professionalism or poor performances assisted to bring the business and investment world to its knees. Looking for solutions to financial crisis and forgetting key corporate player's roles and their related transactions, specifically Transaction Process Persons and the Accounting History makers, constitutes half measures. This paper advocates for appropriate regulation to take care of a sustainable and emerging international business environment. Accountants are professional people in their own right, and should contribute to the science and practices that underpin their services. Certified Project / Corporate Executive Accountants should take a lead in this direction, towards revamping the collapsing business environment. This paper makes a call to that effect.

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