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ROLE OF ACCOUNTING THEORY ON THE EFFICIENCY OF CORPORATE GOVERNANCE. A THEORETICAL CONCEPTUALIZATION

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ABSTRACT
This study provided a theoretical conceptualization on the role of accounting theory in improving corporate governance efficiency. The impact of shareholders primacy on corporate survival is negative and has caused more corporate financial crisis in the economy. The study developed the concept of a holistic approach to the importance of stakeholders theory over the shareholders theory for avoid corporate financial distress in Nigeria.
KEY WORDS: ***Corporate governance, financial crises, accounting, theory and efficiency***

1. INTRODUCTION

A theory is "a set of interrelated concepts, definitions, and propositions that represent a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting the phenomena" Kerlinger, (1964). This means that the objective of a theory, is to provide certain expectations or predictions about the relationship between variables and their degree of dependency or otherwise. It establishes an identifiably expected result such that its eventuality could be universally accepted, (Appah & Oyadonghan 2011). However, there is no comprehensive theory of accounting at present. Instead, people have been trying to propose different theories in the profession.

The absence of any particular accounting theory is as a result of the different perspectives of the formulators of accounting theory. Some are seeing accounting from the users' viewpoint while others are seeing it from the environment patterns in which the users and preparers of accounting data are supposed to behave. However, few authors of these theories have provided an acceptable formulation of accounting theory possible.

Since a theory is the coherent set of hypothetical, conceptual and pragmatic principles, forming the general theory as a set of broad principles that can provide guidelines for its practice are possible. Hendrikson (1982) "define accounting theory as a "logical process of reasoning in the form of a set of broad principles that provides a general frame of research by which accounting practice can be evaluated and guide the development of new practices and procedures." It provides a coherent set of logical principles that forms the general frame of references for evaluation and development of the practice of accounting.

Any practice in life that is not guided by principles or theories will not be able to achieve expected objectives and goals. The gold of corporate governance is to achieve an efficient and effective board that will ensure credible financial reporting and efficient wealth management. A good Corporate Governance frame work should be able to achieve these if it is based on well-structured accounting theories guiding its practice. Recent corporate failures among firms in Nigeria have a lot to think about the structure of corporate governance in relation to the fundamental theories behind it (Monks & Minow, 2004). When all directors of a board put hands together with institutional and market base mechanisms to prevent the disasters of governance that leads to corporate failure, then much can be achieved in saving our firms.

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The enterprise frame work set up by the International Federation of Accountants in 2004 has not achieved much as desired. The most critical questions of the society rings around economic inequality, climate change, doing ethical business within the environment and corporate responsibility. As corporations forms the fabric of the contemporary economies, corporate governance systems controls the way economies function in engaging these issues.

2. REVIEW OF LITERATURE

Corporate governance debates were based on four premises (Veldman, Gregor, & Morrow, 2016).

1. HOW Corporations are to be administered and structured.
2. BY WHOM the issue of corporate control
3. BY WHAT Institutions, laws, regulations and markets
4. FOR WHOM for what purpose.

A deviation from this four preposition model resulted to the shareholder primacy model. This model gives absolute regard to the shareholder, wealth maximization and cut edge corporate competition to the violation of ethical business practices in the world. When profit and shareholders wealth maximization becomes the main objective of a business, the legal face of directors' discretion results to earnings management aggressiveness.
Significant risk elements with shareholders primacy are:

1. Resilience: when corporate governance rest on the role of absolute duty to the investor, corporation s become susceptive to financial cycles, volatile financial markets. When global financial markets fail, corporations become mere tools for market manipulations, enhancing corporate failures to be rapid. Companies are the financial fabrics of the economy not the other way round. The economy is to create the best environment with guidelines for the firms to triumph. Firms resilience to the effect of the financial markets are weaken with the primacy of the investor.
2. R&D and Innovation: Shareholder Primacy encourages investors' satisfactory dividend payout policy, leveraging on the opportunity for future investment and expansion, depleting retained earnings, dampens innovation and research/development.
3. Human and Social Capital: Giving priority to CEOs remuneration and shareholders' value on the expense of investment on employees. Employee motivation and skill development is vital to corporate solvency and growth. It cannot be ruled out that some of the causes of corporate failure are due to employee high turnover, indifference to work and low orientation to up-skilling. Social capital is that approach to creating moral care for one another in an organization (Oyadonghan, 2022). Good staff welfare packages are tools for creating corporate social capital.
4. Recognizing and mitigating systemic risk: Shareholder primacy is a short term goal in corporate governance strategy. It prevents firms from the materialization of systemic risk. Systemic risk is difficult to eliminate when firmly entrenched in a system, it takes an holistic evaluation of policies and systems to recover. Hence firms built on shareholders primacy fines it difficult to grow and survive insolvency when caught in the trap.

Accounting principles and theories

In real life situation, accounting theories and principles actually provides a coherent set of logically-derived principles and foundations that serve as a frame of reference for evaluating and developing accounting practise from time to time, with substantive propositions that relate accounting measurements to decision models and decision making structures. Corporate governance is a body set aside for decision making for the good of the entity, its content and providers of fund. The content of corporate governance includes the employees, the services and products rendered to the society, employees, the suppliers and customers, competitors and regulators. All of these benefit and impact on the activities of a corporate being (Ogiriki & Atagboro, 2022).

The structure of corporate governance ensures the protection of the interest of the providers of fund and the content of the entity at all times. A broader look at the structure of debate will help us to understand why it was not built for the shareholder primacy. Corporate governance is structured on the following structural sets of debates;

1. HOW Corporations are to be administered and structured. The separate entity concept of accounting creates a distinction between the firm and its owners; the duty of administration is taken from the hands of the owners to a board of directors. The primary reason is because; the "Firm" is a legal being. This administrative structure is to ensure efficiency, financial discipline and stewardship. The guiding theory on this is the agency theory. The position of the Chief Executive Officer being appointed by the controlling interest has imposed a dual authority on him as a shareholder and director. Who as a person no longer becomes an agent to the principal in the administrative structure.
2. BY WHOM the issue of corporate control: The board of directors constitute the administrative arm of the firm, control lies in the hands of the shareholders. They appoint the board and has the power to hire and fire the CEO when the need arises. The one being controlled has a responsibility to render accurate stewardship to the controller. The control functions involve accurate reporting, compliance with laws and regulations, and standards of operation. The principle of fairness, responsibility and the theories of social capital and ethics are the main foundations of control.
3. BY WHAT Institutions, laws, regulations and markets. The corporate affairs commission, the constitution, the company and allied maters act are all institutional frameworks providing the regulatory frame work for corporate governance. These laws guaranty transparency and accountability in the performance of the duties of the board. Such that the stakeholders will all be taken care of.
4. FOR WHOM for what purpose. This is where the problem of Shareholder Primacy arises. The purpose of corporate governance is for the stake holders, not for the shareholders only. The shareholders are in minority compared to the stakeholders' theory. Only the shareholders cannot produce the goods and services, run the administrative functions, become the suppliers to the firm, regulate the firm and be employed. Caring for the stakeholders promote a good organizational culture, low employee turnover, high employee up-skill ratio and compliance with corporate governance principles and guidelines.

Principles of corporate governance

The system by which companies are governed, directed and controlled is corporate governance. It establishes the levels of power holding, control, accountability and decision making for the interest of the firm. The functions of corporate governance involve setting companies strategic aims, provide good leadership, supervise management functions and stewardship to the owners. All of these are to be performed within the confines of the following principles of accounting.

1. Fairness: Whatever status a shareholder may hold, they all should be treated fairly, on bonus and script issues, dividend policies etc. in addition, all stakeholders must have a faire treat from the company at all times based on their legitimate rights. The host communities and the environment should be cared for and fairelly compensated for environmental damages. Most corporations are not fair with the stakeholders, they are treated as second citizens in the corporate whole, especially the environment and host communities. The Nigerian company law made adequate provisions to protect the firm and shareholders but failed to care for the rest stakeholders adequately.
2. Accountability: Accountability is the principle of who pays for what when things goes wrong. The board and its members have a corporate Vail to operate under the Nigerian company law. Accountability is who answers for actions and inactions of the firm as performed by its agents on some of the actions bellow:
    a. Stewardship
    b. Risk assessment and actions
    c. Effective internal control system
    d. Internal Audit system
    e. Performance evaluation reports to shareholders

    The inability of the board to act on any of the above in good faith calls for accountability.
3. Responsibility: Responsibility is the question of whose duty it is. To whom the power and authority to act is given is responsible to act. Authority goes with responsible and balanced with accountability. This accounting principle checks misuse and under use of authority for or against the firm and its stake holders. The board of directors has the responsibility to oversee and supervise management, delegate authority and responsibility to management to use the resources of the firm to improve the welfare of the stake holders.

4. Transparency: Transparency is the willingness of the board to provide clear and complete information to the shareholders, corporate strategies, plans, management of assets and liabilities, a faire view of the future of the firm and possible threats and opportunities. Complying with this principle will reduce aggressive earnings management.

Theoretical Framework

Since theories are models defining the relationship of variables, corporate governance variables can be explained with relevant accounting theories that can better the situation of firms by solving many issues.

Theories of corporate governance:

The following accounting theories defines the activities of corporate governance in a firm.

1. Agency theory: The shareholders (the principal) hire the directors (the agents) to work for them in the company. The agents have a duty of good faith to do the bid of the shareholders at all times without letting their personal interest to over ride the principal, but information asymmetry always exist in that relationship, leading to arguments, litigations and loss of fund and corporate identity in most times. The principle of the agency theory is fairness and transparency on the part of the agent in accounting for stewardship.
2. Stewardship theory: The steward (the company executives) conduct the affairs of the business on behalf of the shareholders objectively and render accounts as at when due and accurately. A steward has the authority of the shareholders to be responsible and accountable for the actions and inactions of the firm. Stewardship enables the board to be diligent in their reports to the shareholders, timely and accurate stewardship promote informed decision making in an organization. In addition strategic management accounting reports places a firm in a better picture for investors' decision making.
3. Stakeholder theory: This theory settles the problems associated with shareholders theory, which favours shareholders more than the rest stakeholders. A company's social responsibility extends beyond the shareholder; it includes the employee, customers, suppliers, host communities, the environment and the government. This theory supports the principle of fairness and social capital formation in a firm. It brings harmony and understanding among all the stakeholders in an organization, giving every member the opportunity to appreciate the invaluable role and functions of the different stakeholders to the success of the firm.
4. Shareholder theory: The theory holds the supremacy of the shareholder over the rest stakeholders. It sees the shareholder as the only and sole responsibility of the firm, every other person or group of persons is secondary and immaterial. It fails to build corporate social capital and employee motivation or development. The profit maximization maxim of this theory has helped most firms to fail in the corporate world, and most investors and scholars are beginning to see the place of stakeholder's theory over shareholders theory.

Methodologies for the formation of Accounting Theory

In all disciplines, a methodology is required to formulate a theory, Accounting theories are formulated based on two methodologies: one is descriptive, the other normative. Methodology is the way of doing things. So that the traditional patterns obtained, used or followed in the process of theory formulation is what is called the methodology of theory formulation.

1) Descriptive methodology: People do not see the dynamism of accounting; many people see accounting as a static field. Therefore, the professional world of accounting belief is that accounting is an art that cannot be formalized and that the methodology traditionally used in the formulation of accounting theory is merely an attempt to justify, re-enact or re-emphasize "what is" by simply codifying existing age-long accounting practices.

   This school of thought sees the accounting discipline as static and conservative, which is mostly practiced by the professional accounting institutions. This methodology is needed to justify some of the accounting practices that are deemed useful. Among such descriptive theories are: Gady's Inventory of Generally Accepted accounting principles.

Accounting principles bond statement No. 4. It lays emphasizes on what the accountants do, based on standard, inductive reasoning, and making observation. It helps to reduce diversity in accounting approach so as to promote harmonization globally.

2) Normative methodology: The descriptive methodology had been criticized by the normative theorists, who believed that accounting as an academic and scientific discipline is not dynamic. It grows proportionately with the dynamism of commerce and business, the social responsibilities of business and government agencies and the complexities of the social economy and government. Based on this, normative accounting theory attempts to justify "what has been" operational. Accounting is designed to provide information according to the growing information needs of managers and investors to make strategic decisions for the future and equity accounting is concerned with reconciling the equities and others interests.

Approaches to the Formulation of Accounting Theory

A. Non-theoretical approach

The non-theoretical approach has two models

a. The pragmatic approach: This approach formulates accounting theories based on the practice of accounting informed by real life situation considering how accounting thoughts are molded by real world events and proposition of solutions to solve world economic, financial and investment problems. This approach believed that accounting policies, principles and standards should be chosen based on their usefulness to solving the problems affecting the users of accounting information. This approach had led to many new issues in accounting, formulation of international financial reporting standards and ethics (IFRS). This approach provides solutions to specific problems.
b. Authoritarian Approach. The authoritarian approach believed in accounting theories formulated by bodies having the authority to regulate the practice of accounting and building the knowledge of accounting**.** It means allowing professional accounting bodies and training institutions to make professional accounting pronouncements and interpretation of standards, provision of ethical codes of conducts etc. this approach also provides solutions to professional accounting practice and problems associated with independence, integrity and objectivity. This approach is also a pragmatic approach to accounting theory formulation. It helped to prevent conflicts in accounting issues and promote global harmonization of reports.
Non-theoretical approach is based on the **utility** concept of accounting practice with reference to the uses of accounting information and provision of data for corporate decision making.

Legitimacy of the approach to accounting theories

All the approaches to the formulation of accounting theories are legitimized by two basic prognoses of accounting.

1) The pessimistic prognosis :
The legitimacy of the process of formulating accounting theories is linked to its ability to produce an optional accounting system. It means legitimacy is established if a process ends with good results or meets pending social needs, provides a structure, system or a means to solving a crucial social problem.

The pessimistic prognosis is the expected payoff to a use (person) employing an optional decision strategy which is greater than or equal to the corresponding payoff for any other alternative system(s).

All several approaches to accounting theories had been adding to and improving the value of the present rules, principles and standards guiding modern financial reporting. Accounting is a unique profession and field of study in practice that is harmonistically dynamic and socially united globally and individually in all rules, principles and standards in the process of financial reporting. The longer the profession lasts, the more it had become globally standardized, in practice and in learning both professionally and academically. This only exposes two things

a) That selection of reporting alternatives actually trade off one persons gains for another
b) The agreements on reporting alternatives require value or ethical Judgments or to the well beings traded. In summary the pessimistic prognosis believes that there is no better alternative payoff to present accounting standards provided by the several approaches to accounting theories in the world.

2) Optimistic prognosis

The optimistic prognosis promotes further search for knowledge in accounting. Proposing that accounting research should be optimistic that new and alternative approaches of accounting could be generated. This prognosis had led to new studies in ethical values in accounting and additions to presentation of financial statements (such as statement of changes in equity) and improvement on the content of executing financial statements introduced by IFRS. The optimistic prognosis has given legitimacy to new knowledge in accounting theories and practice. The issues of accounting borrowing social, economic, physiological theories to its field of research and knowledge experience is a step to the concept of operational research strategies in solving social economic and financial problems of the corporate world.

The world had seen that accounting information is key to corporate existence**,** capital market survival, and national and global economic stability. Deviation from accounting information by those who formed the continues relevance of accounting information due to corporate scandal on financial reports by depending on close substitutes to accounting information in the management information system had led to world economic depression and national stagflation cost in recent times.

Objectives of Accounting Theory

Theory is about practice; it provides the basic guidelines to practise a profession with ethical codes, honesty and efficiency.

If the theory is reliable and true, the practice will be smooth and generate effective result and achieve set objectives, but if the theory is faulty, then the set objectives of the profession cannot be achieved.

It therefore means that the primary objective of accounting theory among others includes:

- To explain how economic events are to be best recorded,
- To ensure that the method of recording economic events reflects real life situations,
- To ensure that acceptance and dependable accounting principles which will promote honesty and integrity are formulated and used,
- To provide a pragmatic and general frame of reference for inquiring into the nature of accounting,
- To promote substantive propositions that relate accounting measurement to decision models and decision making,
- To provide a framework for the development of new ideas and to help the process of accounting in solving financial research,
- To build knowledge blocks as a profession
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3. CONCLUSION

A good code of corporate governance most embeds the principles and assumptions underlying the theories of accounting that explain such codes. Accounting theories have provisions met to solve problems of corporate governance that can prevent corporate failures. Most firms have failed for paying attention to the shareholder primacy concept without recourse to the stakeholders' theory. Aggressive earnings management with no restrain to profitability actualization leads companies to disasters; hence it is recommended that stakeholders' theory takes primacy over shareholders theory in the corporate world.

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