

ENTERPRISE GOVERNANCE AND MANAGEMENT ACCOUNTING FROM THE VIEWPOINT OF FEED FORWARD CONTROL

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Abstract

In a growing market world-economy, in which the scope for financial mismanagement increases, enterprises need to strengthen their strategic risk management. Enterprise governance is not only a publicly regulated issue but also a matter of self-control, since it is closely related to conformance and performance (value creation). Therefore, enterprise governance should be studied from the viewpoint of proactive and preventive (feed forward) control rather than a reactive and reflective (feedback) viewpoint. The integrated aspects of financial and management accounting should be examined with relation to internal control and enterprise governance, although generally only corporate governance (conformance) has been discussed from the viewpoints of auditing and financial accounting, and feedback control. Management accountants in Japan should pay more attention to the establishment of feed forward management accounting and good enterprise governance.

Keywords: Internal control, enterprise governance, value creation, risk management

Introduction

The purpose of this paper is to clarify the role and function of contemporary management accounting and the management accountant in relation to *enterprise governance*, in the sense proposed by the Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants (IFAC) (PAIB, 2004; Connell, 2004). The paper also relates enterprise governance to management accounting through the concept of feed forward control.

Enterprise governance integrates conformance or *corporate governance* with performance or *business governance*. Corporate governance includes the protection of stakeholders from unfair and fraudulent behavior by management. Business governance, which seeks to securely create value and attain strategic

goals, ensures good corporate governance. However, it cannot be dissociated from conformance. Conformance and performance depends upon the social and economic behavior of management. This matter is discussed from the viewpoint of a globally changing management environment.

The management environment has become more unstable and uncertain in the presence of greater competition and as a result of developments in information technology and communication. Crises can quickly arise, even in previously profitable enterprises, either caused by or causing poor governance practices. As a result, the social responsibility of directors and management to stakeholders has become a focus of attention. Enhanced disclosure, accountability and auditing standards have been widely canvassed issues in relation to corporate governance. However, little discussion of the role of management accounting and the management accountant in enterprise governance has taken place in this context.

In what follows, I first sketch the international development of corporate governance and its structural characteristics in different countries. Second, I review the relationship between business failure and corporate governance in Japan after 1990. Third, the importance of risk management, especially internal control, to business governance is discussed. Fourth, I address the meanings of feed forward control in the context of enterprise governance. In the conclusion, I advocate more disclosure of information on strategy and risk, based upon the viewpoint of feed forward control.

Institutional and Capital Structural Aspects of Corporate Governance

A spate of recent scandals such as WorldCom and Enron illustrate how unethical practices involved in the use and disclosure of accounting information can defraud the stakeholders of enterprises, including employees, creditors and the government and shareholders (Stuart and Stuart, 2004). It is evident in such cases that oversight procedures adopted by Boards of Directors are often inadequate, that chief executives and senior managers are capable of dishonest behavior, auditors are often not independent and collusion between various parties can occur. This experience has led to institutional reforms in corporate governance.

Tables 1 and 2, summarize some of the measures that have been taken by Western and Asian nations respectively in dealing with legal issues in corporate governance. In the West, countries mainly tackle internal control problems, in which matters of governance such as the independence of directors, independent oversight procedures, internal auditing and disclosure and accountability practices are legally enhanced. Internal control is increasingly integrated with the broader concept of

Table 1: The Requirement of Corporate Governance Law and Regulation in the West
 * (MM) Shows the Market Model, While (RM) the Relationship Model

International organization, Nation, and Area	Requirement of law and Regulation	Comment
European Union	*A High level Group of Company Law Expert (November 2002) ** An Action Plan (May 2003) ***Federation des Experts Comptables Europeens (September 2003)	*A modern regulatory framework for company law in Europe **Modernizing company law and enhancing corporate governance in the European Union - a plan to move forward ***A discussion paper: The financial reporting and auditing experts of corporate governance
International Federation of Accountants	*A Task Force on Rebuilding Confidence in Financial Reporting (July 2003)	*Rebuilding public confidence in financial reporting: An international perspective
Organization for Economic Cooperation and Development	*The OECD Principles of Corporate Governance (1999) **The Revised Draft Principles (January 2004)	
Australia (MM)	*Corporate Governance Council; The Australian Stock Exchange **Corporate Law Economic Reform Program: 9 Bill (July 2004)	*Principles of good corporate governance and best practice recommendation (March 2003) **(Audit reform, corporate disclosure and executive remuneration and the outcome and consultation
Canada (MM)	The Joint Committee on Corporate Governance (the Saucier Committee)	Beyond compliance: building a governance culture (November 2001)
France (RM)	*Vienet Report (1995 and 1999) **Bouton Report (2002) **Combined report of the three reports (October 2003)	***The corporate governance of listed corporations
Italy (RM)	*The Preda Report (October 1999) **Its Revised version (July 2002)	*Under the sponsorship of the Italian Stock Exchange
Netherlands (RM)	*The Dutch Code of the Best Practice (2003) **The Tabaksblat Committee (December 2003)	*The 40 recommendations of the Peters report **The two-tier board structure (management and supervisory board)
United Kingdom (MM)	*Cadbury Report (1992) **Combined Code on Corporate Governance (1998) ***A Revised Combined Code (July 2003)	
United States (MM)	*Sarbanes-Oxley Act (2002) **Breen Report on the Future Corporate Governance of MC (formerly World Com) (August 2003)	

Table 2: Requirement of Corporate Governance Law and Regulation in Asia

Nation and area	Requirement	Content
China	Ministry of Finance: Standards of Internal Accounting Control: Fundamental Standard, and Money Funds, for Trail Implementation (Jun 2001)	Enhancing internal checking system
Hong Kong	The Standing Committee on Company Law Reform (June 2003)	Concerning corporate governance reform
Japan (RM)	*Amendment of Auditing Standard (January 2002) ** Ministry of Economy and Industry: Internal Control in the New Risky Age (June 2003) ***Amendment of Commercial Code (from 2001 to 2002)	*Enhancing internal control and risk approach **Guidelines for internal control functioned together with risk management ***Enhancing corporate governance
Korea (M)	Committee on Corporate Governance: Code of Best Practice for Corporate Governance	
Malaysia (HM)	Financial Committee on Corporate Governance: Code on Corporate Governance (March 2000)	
Singapore	*Amendment to the Companies Act (July 2002) **The Council on Corporate Disclosure and Governance (August 2002): Corporate Governance and Disclosure Requirements	**To review and enhance the existing framework on corporate governance and promote good corporate governance in Singapore, taking into account international best practices
Thailand (HM)	The Stock Exchange of Thailand *The SET Code of Best Practice for Directions of Listed Companies (Corporate Disclosure Standards) 19 January 1998 **Best Practice Guidelines for Audit Committee 23 June 1999 ***Regulations of the Stock Exchange, 22 January 2001	
Taiwan	*Amendment of the Corporate Law (November 2001) **Corporate Governance Best-Practice Principles for the Taiwan Stock Exchange Corporation and GreTai Securities Market Jointly (October 2002)	

risk management. International organizations such as OECD and IFAC play an important role in building legal and institutional systems for good corporate governance.

A common feature in Asian countries is that legal changes in corporate governance are associated with the inflow of capital from Western countries and their economic influences. Consequently, many countries follow the example of American and English codes and requirements. For example, Japan followed the American Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control-Integrated Framework* to establish oversight management and remuneration committees and to appoint independent, non-executive directors to Boards of Directors to improve corporate governance (The Society for the Study of Risk Management and Internal Control, 2003). Similar influences can be seen in Korea, Malaysia, and elsewhere. Legal and institutional interference with the processes of the corporate governance is a consequence of the international change in the business environment and of widespread distrust with the management of large multinational enterprises. The present situation has parallels with that of the 1930s.

Capital-market structure is considered important in determining the strength of corporate governance. There are two main models of corporate governance, which reflect cultural and capital-structure differences: the capital market or 'neo-classical' model (Banks, 2004; Dietl, 1998) and the relationship model. The neo-classical model focuses on the strengths of competition, forcing transparency and independent auditors on capital markets. The relationship model focuses on the enhancement of corporate governance through the close-relationship of enterprises with governments, banks, workers and other interested parties. As indicated Table 1 and Table 2, the former is Anglo-American while the latter is Continental European in origin.

Many Asian countries follow a hybrid of the two models. The Anglo-American type provides openness and the application of the agency principle reduces dependence on bureaucracy. Close relationships between banks, companies and other organizations, in contrast, have also been considered to provide advantages in good corporate governance in Japan because they encourage long-term stability. Both types of regime have been found wanting in recent times, however. The Enron and WorldCom scandals in the US have brought into question the effectiveness of the neo-classical model. The changed global political and economic circumstances that weakened banking sector in Japan have reduced the effectiveness of its network of governance and many Japanese companies have failed.

Germany originated a representative type of the relationship model, still followed by many Japanese enterprises. Under this approach, it is the function of a supervisory board (Aufsichtsrat) to represent social interests made up of shareholders and workplace representatives (Niyama, 2001; Itami, 2000). However, this has also not prevented ‘corporate scandals and other problems arising’ (Appleyard and Pallet, 2004). Evidently, application of neither the market nor relationship model can guarantee a solution to the problems besetting corporate governance.

Management self-interest and arrogance is a feature of unfair and fraudulent practices in corporate governance. Another feature, not so frequently noted, is that, failures of corporate governance are closely related to weak and unchecked strategies and risk management. Without good business governance good enterprise governance cannot be achieved in an unstable and rapidly changing world economy. Legal requirements and structural models only touch upon the apparent adjustment issues arising between management and stakeholders and cannot alone solve the fundamental problems of enterprise governance. Successful corporate governance fundamentally originates from the implementation of successful strategy and risk management. Enterprises must now shift their standpoint from avoiding risks to managing them, ‘since risk is essential for growth’ (Prickett, 2004).

These problems are more difficult to overcome in Asia than the West. In most Asian countries, few top managers are comfortable with the ‘philosophy of corporate governance’. Furthermore, their understanding of the principles of corporate governance is weak, since the separation between ownership and management, or between the directors and chief manager, is less pronounced than in western countries. It is common for the chairman of an enterprise to be closely connected with the owners and managers of the same enterprise through family relationships. Also, auditors and directors are not appointed independently (Solomon and Solomon, 2004; Kim, 1995).

Bankruptcy and Corporate Governance in Japan

I now examine the structural roots of unfair and fraudulent behavior by management. This analysis is illustrated by Japanese cases. Effective corporate governance is a necessary but not sufficient condition for the sustainable creation of business value in the long run. Structural changes in the economic and business environment are responsible for the present, imperfect systems of governance. Therefore, effective enterprise governance systems must recognize such structural change and provide strategic countermeasures to deal with its impact. The current Japanese experience serves as an example of this principle.

Table 3: One Hundred Large-Scale Bankruptcies in Japan After the Second World War: Its Trend

(Money unit = million yen)

Period	Number of company	Average liabilities per bankrupted company
1975	1	150,000
The 1980s	4	286,400
The 1990s	70	394,021
The 2000s (Until January 2001)	25	642,963

Table 3, in chronological order, shows the average liabilities per company of the top 100 large-scale bankruptcies in Japan since 1990. After the collapse of the bubble economy, both the number of bankruptcies and the amount of liabilities per company continued to increase over the next ten years, decreasing slightly in 2003. Profitable enterprises continue to face risks in the aftermath of these failures. The industrial sectors that most strongly impact upon the prosperity of others in this respect are banking, securitized loans, resort development, hotel, and golf course management (see Table 4). Their average ratio of liabilities to capital stock per company is higher than other sectors. There is no complete means for ensuring the safety of creditors. The buffer to defend stakeholder from risks becomes much smaller in the presence of bank and insurance company failures. Life insurance and construction companies, although their average liabilities to capital stock are less than the above sectors, have also had a strong influence on other sectors in the aftermath of the period of firm failures. Although average liabilities per company and the ratio of liabilities to capital stock in the manufacturing sector are the lowest of all the sectors, this sector is also still threatened by the earlier series of bankruptcies.

The data in Table 4 shows the high ratio of liabilities to capital stock among failed companies in a number of sectors. Enterprises with high liability profiles provoke unease among the business community. From Table 5, the ratio of liabilities to capital stock was 7794.8 million yen in bankrupt companies with 10 to 50 million yen of capital stock. This pattern continues at present, though somewhat diminished. In 2003 the number of bankrupted companies was 16,624 with liabilities of 11.78 billion yen, down about 14% in comparison with the previous year's figures of 19,458 and 13.8 billion yen, respectively.

Under these circumstances, what does the accounting concept of capital stock mean? According to Marple (1936) the funds contributed by the stockholders are a buffer giving a margin of safety to creditors. However, the function of capital

Table 4: Average Liabilities per Bankrupted Company and the Ratio of Liabilities to Capital Stock by Industry

(Money unit = Million yen)

Industry (Number of company)	Average liabilities per bankrupted company	Ratio of liabilities to capital stock
Life insurance (3)	2,815,497	48.6
Banking, lease, n and securities business (44)	395,523	983.8
Real estate dealer (26)	262,739	4093.4
Department store and supermarket (6)	347,247	1317
General merchant and trading company (2)	446,263	17.2
Construction (6)	939,799	141.7
Shipping agent and transportation (2)	342,150	58.6
Venture capital (1)	500,000	113.6
Resort development, Hotel, and Golf course management (7)	240,802	1078.5
Manufacturing (2)	177,839	42.3

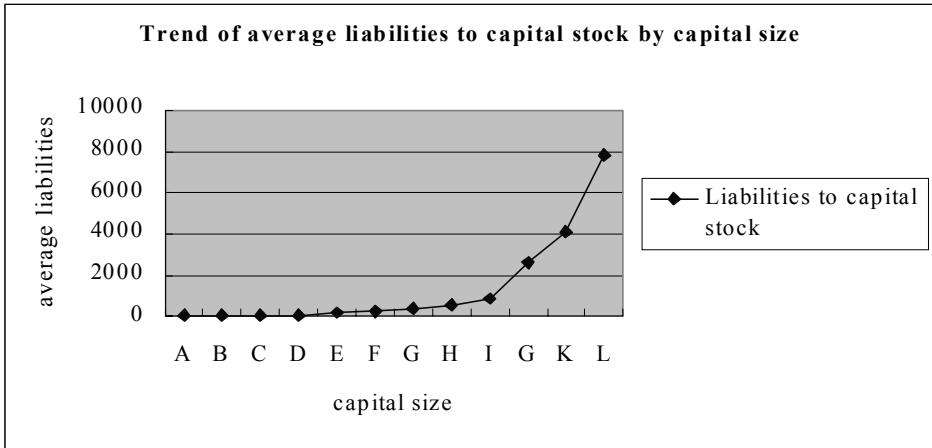
Table 5: Average Liabilities per Bankrupted Company and the Ratio of Liabilities to Capital Stock by Capital Size in One Hundred Large-Scale Bankruptcies

(Money unit = Million yen)

Capital size (Number of company)	Average liabilities per bankrupted company	Average liabilities to capital stock of the company
L.10 – 50 (11)	190,628.7	7794.8
K.60 – 90 (8)	315,950	4119.2
J.100 (10)	264,320	2643.2
I.160 – 400 (10)	216,871	889.5
H.460 – 587 (11)	284,048	554.6
G.610 – 900 (3)	258,180	377.4
F.1000 – 1565 (7)	334,965	268.8
E.2000 – 2816 (8)	477,190	200
D.3112 – 6916 (13)	345,215	72.1
C.11787 – 17680 (9)	827,779	57.5
B.20262 – 39763 (6)	866,884	53.1
A.57598 – 85000 (3)	2,662,098	40.3

stock as ‘a buffer for the creditors’, common in many code-law countries of Asia following the Continental European tradition, appears to have diminished. Capital stock has been transformed to a concept that does not take into account the effect of feedback control on creditors’ protection.

Figure 1: Trend of Average Liabilities to Capital Stock by Size



Imperfect corporate governance has obscured facts about the business environment. Risky business practices have been stimulated with ‘a check-free empire’ of corporate management in Japan, since management is not accountable to the board in any useful sense (Mochizuki, 1995). The received view that Japanese business has a long-term stable perspective in its approach to investment has contributed to ignorance regarding the need for management accountability. All enterprises should take precautions not only to protect their own business from risks, but also to positively manage the risks caused by supply chains, buyers, and suppliers of finance. Risk repercussions on enterprises, including the manufacturing sector, from the increasing interconnectedness of business in the information economy, is a new challenge for enterprise governance. Therefore, for sustainable success in business, management must embrace a strategic focus and implement risk management, in addition to institutionally and structurally established corporate governance.

Risk Management and Business Governance

In Japan many enterprises have lost public confidence due to unfair or fraudulent practices since the early 1990s. Window dressing, through misleading disclosure practices, has exacerbated the social and financial consequences of bankruptcy. A corporate culture in which chief executives make arbitrary or self-interested decisions and ignore the inconvenient recommendations of independent managers continues to be a barrier to reform. For example, in the large supermarket chain Daiei Inc., the chairman failed to change his firm’s unsuccessful strategies due to the placing of too much importance on family management interests and to the giving of insufficient weight to independent advice from professional subordinates (Imoto, 1999).

Poor business governance practices can occur at any level of an organization and negatively impact on public confidence. In the Yukizirushi (Snow Brand) Dairy Manufacturing Company, the top producer of dairy products in Japan, senior managers were unaware of low quality control standards that caused basic hygiene in cleaning equipment to be compromised, inevitably leading to consumer anger when the matter entered the public domain (Special Article, 2000). When bureaucratic governance procedures in the Mitsubishi Motor Corporation concealed consumer complaints of vehicle defects, its profit sharply dipped as a result of lost social confidence. According to one shop manager, 'During peak times, about 20 customers would visit the shop each day, but since last scandal, the number has dropped to two' (*Japan Times*, 22 August 2004). These examples show that large companies, which neglect good business governance, perhaps in the pursuit of short term financial gain, run the risk of negatively impacting their longer term interests.

In Japan, as elsewhere, internal control in the 1950s was defined as an internal check system. It was viewed as a means to preserve company assets, secure the accuracy and reliability of accounting data, and facilitate business efficiency and effectiveness. Internal control is now more closely related to corporate governance. The relationship between internal control and governance, however, now needs to be examined from the viewpoint of strategy and business governance, i.e. value creation and performance.

Most failures of business in Japan in the 1990s were connected with deficiencies in strategy and risk management. The immaturity of strategy management, senior managers' desire to expand their businesses, without consideration to changes in the global economic environment, led to accounting manipulation, window-dressing and unfair and fraudulent behavior. Poor corporate governance practices, involving secrecy, rule-breaking and criminal activity, accelerated imprudent *strategic* management and the acceptance of risky or low rate of return projects. It is evident that bad enterprise governance results from defective strategy and business risk control. The basic principle of finance, that risk has to be balanced against return is forgotten or ignored.

Therefore, a company that devotes itself only to corporate governance, particularly the conformance to the requirements of law and regulation, overlooking the need for good business governance with respect to strategy and risk management, will likely fail to achieve its objectives in the long run. In a competitive and rapidly changing economic environment, sound business governance is necessary for sustainable business growth. The view that this argument supports the position that 'good corporate governance is a necessary, but not sufficient, foundation for success' (PAIB, 2004, p. 5) is becoming more widely accepted. As COSO states 'while internal control can help an entity achieve its objectives, it is not a panacea.'

Financial and management accounting have the same origins, since disclosure cannot realize accountability without controllability (Nishimura, 2003). Disclosure without controllability is an empty ceremony (Nishimura, 2003, Preface). To integrate social confidence with the sustainable creation of value, disclosure with controllability based on accountability is required. Corporate governance without business governance is only a formal compromise between management and stakeholders. It must tie up with the oversight of value creation activities to management. The idea that ‘enterprise governance’ referred to in this paper is a possible solution to current problems in corporate governance, originates in an idea proposed by the PAIB.

Enterprise governance is a comprehensive term encompassing corporate governance, conformance, and business governance and value creation (PAIB, 2004, p.10). Corporate governance is related to accountability and assurance, while business governance is related to value creation and resource utilization. The PAIB (2003) summarized the relationships of the two governances as follows:

‘enterprise governance is an emerging term, which describes a framework covering both the corporate and the business governances of an organization. Achieving a panacea of good corporate governance that is linked strategically with performance management will enable companies to focus on the key drivers that move their business forward. This is both a challenge and an opportunity’.

The distinguishing feature of business governance is its assessment of risk from the two angles of internal control and strategic management. A *Strategic Scorecard*, but not *the Balanced Scorecard*, fills the strategic oversight gap. The Strategic Scorecard is not a planning tool, but it is an oversight tool, to help the board of directors grasp all aspects of the strategic process. It is made up of four basic elements: strategic position, strategic options, strategic implementation, and strategic risks. By using the scorecard, the governing board of an enterprise can identify the key points in, and timing of, effective strategic decision-making and recognize ‘milestones in strategic implementation together with the identification and mitigation of strategic risk’ (PAIB, 2004, p. 6). Such a scorecard thus attaches importance to filling the strategic oversight gap in transformational changes such as mergers, acquisitions and bankruptcies, which the Balanced Scorecard does not address (PAIB, p.24). While the Balanced Scorecard is operational and reactive with respect to a given strategy, the Strategic Scorecard fulfills its function with respect to transformation and abrupt change. Prickett (2004, p.15) argues that the Strategic Scorecard forces boards to consider where the company is now, what its options are, and how it will manage risks.

I believe that the Strategic Scorecard is founded on the recognition of the need for feed-forward control. The conceptual distinction between feedback and feed-forward control is described in Table 6. Generally, feedback control begins where

feed-forward control ends. Feedback control must correct the imperfect achievement of goals that feed-forward cannot realize. In this case, the imperfect feed-forward is only the forecast part of feedback control. However, by nature, feedback control is not necessary for perfect feed-forward control. Theoretically and practically, both concepts are independent. Feed-forward control is critical to effective enterprise governance and the implementation of a Strategic Scorecard, not because of the necessity to forecast and estimate, but because it supports the realization of the goal of sustainable progress through proactive and preventive control of enterprise resources. In contrast, feedback control is reactive and reflective and does not serve the needs of a Strategic Scorecard.

Table 6: Feedback and Feed Forward Controls in Management Accounting

Control system	Planned value	Object of sensor	Assessor	Effective device	Result
Feedback	Absolute truth	Actual action	Variance between plan and actual action	Reflective, reactive control	Actual performance close to plan in next period
Feed forward	Relative truth	Virtual action	Variance between plan and virtual action	Proactive, preventive control	Actual performance close to plan at present

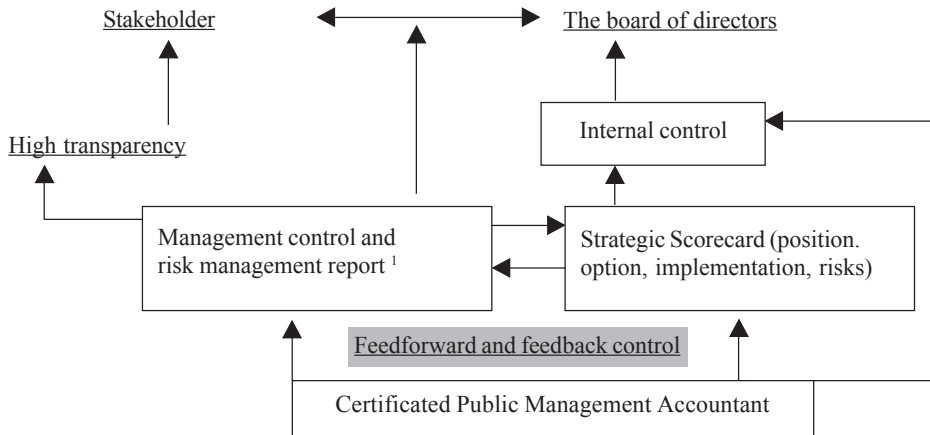
Enterprise Governance and Feed Forward Control

Contemporary enterprises in a world afflicted by scandals are usually large, composed of thousands of employees whose activities are diverse and complex. Individuals in such enterprises deal with issues of strategy and risk on a daily basis. The corporate culture of obedience to a chief executive’s directions is not well suited to the challenges of sustainable growth and best corporate governance (Special Report, 2003). Risk management is proactively and preventively implemented only where all individuals are conscious of strategy and risks.

Most advocates of corporate governance tend to fill oversight gaps in the constitution of boards and auditing committees by suggesting the enlargement of the feedback functions of accountability, disclosure, and internal control. However, in order to root out the causes of unfair and fraudulent behavior, senior managers should not only strengthen the accountability and disclosure of the implementation process of strategy and risk management, but also assess strategy and its related risks as accurately as possible by collecting environmental information, preventively and proactively. In the case of operational risk, a proactive and preventive approach depends upon networking with suppliers-chains through electronic communication

and quick transportation systems (Collier and Berry, 2002). The manner in which the Strategic Scorecard could be used as part of feed forward control and connected with accountability and disclosure processes is shown in Figure 2.

Figure 2: Enterprise Governance and Feed Forward Control



All the risks of an enterprise cannot be disclosed. Only the assessment and proactive control of the risks related to the selected strategies are illustrated in the report. The report is composed of the progress of strategy and its prospect, the possibility of risks related to it and the preventive actions to make them minimum, and the present situation of the strategy and risks.

Accountability is a basic requirement for large enterprises to be socially tolerated. Disclosure and controllability would be pointless in present day society without accountability. Contemporary enterprises should therefore integrate accountability with disclosure and controllability. The three basic elements of enterprise governance should be based on feed-forward and feedback control systems. Strategic management is often transformational and unstable because it confronts the risks of such events as mergers and acquisitions. However, risk-taking provides opportunities for profit. In a competitive and changing world economy, enterprises must take unavoidable risks in order to pursue a sustainable value-creative strategy. Furthermore, large enterprises have to be proactively sensitive to environmental protection and preservation interests, since their size makes it impractical to reactively and reflectively control the potentially harmful wider impact of their activities. As roundtable discussion participants pointed out in the *Journal of Strategy + business* (2003),

‘the day of Charisma is over, challenging uncertainty by which growth opportunity is created becomes more and more important, and faith must be integrated with information and certainty’.

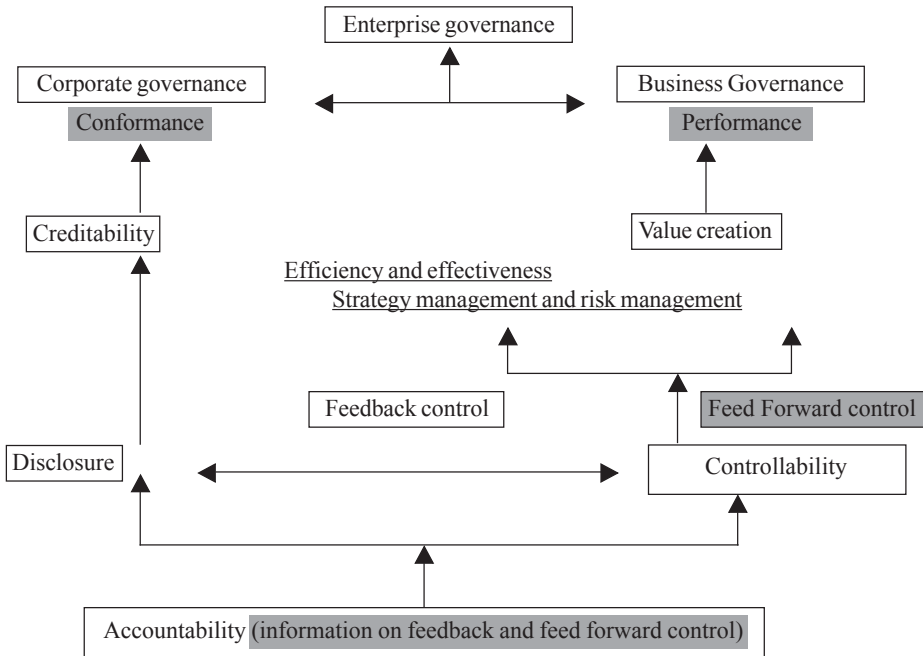
Khurana (Special Report, 2004, p. 57) notes that trust takes a long time to build but can be lost overnight. Many Japanese bankruptcies among large businesses originate in distrust. Due to self-interest, arrogance and ignorance, senior managers continue to disregard the views of junior management and employees, thereby losing social trust.

Management accounting should emphasize the need for feed-forward control, linking this with enterprise governance and performance. Risk management is sometimes claimed to be essentially proactive and strategy a ‘living thing’ (Prickett, 2004, pp. 14-5.). Japanese enterprises have historically succeeded in penetrating international markets with goods of high quality and low cost. I have argued elsewhere that part of this success is due to the adoption of feed-forward control systems (Nishimura, 2003). Feed forward control *has* contributed to Japanese strategic management but it now needs to be integrated with risk management. The role of feed-forward control is not only the forecast of risks, but also to assess risks as objectively as possible, through collecting business environment information, using preventive and proactive methods to alter the risks associated with strategic goals and to achieve planned goals. Feedback control is insufficient for such a realization.

Senior management are responsible for the processes of feed forward and feedback control but it is also necessary for these to be reported to the board of directors and stakeholders to attain effective governance. Accountability is closely connected to information on feed-forward and feedback controls. The board or independent committee should review and check the process of feed-forward control: assessing risks and checking management control. Accountability depends upon information about the processes of feedback and feed-forward controls (see Figure 3). Good enterprise governance is built by the integration of accountability, disclosure and controllability from the viewpoints of both feed-forward and feedback controls. The oversight gap and the value creation under risky business environment must be resolved on the basis of feed forward control and information.

A question pertaining to the relationship between business governance and feed forward control is: “Who can assess risks and check managers’ strategy-implementation process and risk management from the viewpoint of feed forward control?” This question is related to a generic reporting problem. When lay persons are given information relating to feed-forward control by management it cannot be readily interpreted and checked. Therefore, internal professional accountants and, in particular, certificated public management accountants (CPMA), need to play the same role in auditing management control process as external public accountants do in the financial accounting arena. Proper disclosure and

Figure 3: Business Governance and Management Accounting



accountability practices relating to management control processes should be assessed and checked by CPMA's or their equivalents. In countries such as Japan where the management accounting profession is as yet relatively undeveloped this calls for reforms of the education system and the establishment of a system of qualification and certification for public management accountant.

The board of directors is ultimately responsible for business strategy. Therefore, with the support of public management accountants and oversight committees, the board should review the process of strategy implementation by the chief executive and senior managers as well as make strategy (PAIB, p. 12). Enterprise governance would be enhanced if information on strategy and its related risks were given to stakeholders in a management control report or a strategy and risks report closely connected to Strategic Scorecard. Figure 2 illustrates the suggested relationships between business governance and CPMA's role. In the Mitsubishi Trading Company today, data numerically grading projects and estimating the market value of their related assets and the probability of bankruptcy and failure are incorporated with every investment project risk management system (Abe, *et al*, 2000). If these data were included in publicly accessible concise management control reports, transparency and social confidence in enterprise would be heightened.

Conclusion

Financial reporting, based on international standards, is quite uniform in large companies in most nations. Substantial resources have been invested in recent years in improving the impact of financial reporting on effective corporate governance. Management accounting reporting practices are, in contrast, widely different between countries. Far fewer resources have been devoted to improving enterprise governance by implementing better management accounting practices. Consequently, more effort should be made to increase the role of management accounting and management control systems in order to integrate corporate governance with successful value creation or effective business governance. The integration of financial reporting and management accounting information which have long been advocated (e.g. Dressler, 2002; Kaplan, 1984) can also be advanced from the viewpoint of good enterprise governance. Countries that have underdeveloped certified public management accounting practices should examine the role of professional management accounting bodies such as the CPMA in relation to strategic risk management in order to establish good *enterprise governance*. A feed forward approach to management control is central to this process. To support these endeavors, the accounting education system must integrate financial and managerial accounting systems.

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