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The Implication of the Telecommunication Operators' Management on the Accounting System

Today we are witness to the gradual liberalization of the telecommunication markets from all over the world, which will bring to the increase of the competitiveness on these markets. The recent liberalization of this sector in Romania forced the companies from this industry to rapidly adjust to the new conditions. It is assessed that a real and healthy competitiveness will generate the benefits for the final consumer. But, the intervention of the regulation authority is felt strong enough. Each company wishes to become the best in its industry, to obtain higher performances. The competitive advantage in telecommunication sector can be earned in different ways. Also, the accelerated rhythm of innovation represents an additional mobilization factor for the operators on this market. Under these circumstances, the decision making process needs to be supported by the relevant and prompt information. The organizational changes enjoin a continuous adaptation effort of management accounting to managers' needs, knowing the fact that the management accounting main objective is to provide useful and timely information for managers, in order to support the decision making process. In this paper we wish to present the management peculiarities in a highly dynamic sector, the potential sources of competitive advantages, as well as the impact of the new context on the operators' management and management accounting.

Keywords: telecommunication, regulation, strategies, accounting

1. Introduction

The telecommunications have known recently an unprecedented development and, in the same time, they played and continue to play an important role in the changes that have occurred in the economy in recent decades in all states, not only in developed ones.

The telecommunications, in addition to purely economic role that it has contributing to the effectiveness of the functioning of the economy, have a great role in satisfying the needs of social communication between people. It have a strategic role in most countries and, because of this, as well as the enormous investment required in the field of telecommunications, long time these services have remained (even exclusively) the "apanage" of the state. But in recent years, we are witnesses to the liberalization and privatization of national companies in many countries, when they become sufficiently strong to cope with competitors on a competitive market like telecom market. The more developed are more complex the economies are, the share of private companies operating in this area will increase.

2. The present situation on the Romanian telecom market

If, at the beginning, the telecommunications services constituted monopoly, in time, the developed countries have realized that only a real and healthy competition in such an area might lead to progress, not only in the telecommunications sector, but in almost all social fields. From here until partial or full liberalization of markets was only a step.

For Romania the crossroad moment was represented by the takeover in 1999 by Greek company OTE of a package of shares held by the Romanian state to the only fixed telephone operator in Romania, Romtelecom, the package that represent 35% of the total shares. Under the privatization contract, the Romanian state had an obligation to preserve the monopoly on fixed telephony until 31 December 2002.

The acceleration of the telecommunications market liberalization and the opening of the negotiations due to Romania's accession to the European Union, the Chapter 19 of communications being considered very important. At first this chapter was considered premature opened and without predictable opportunities for closure due to the lack of a body to implement a coherent policy adapted to the new technological conditions and the harmonization with the European Community law.

In 2001 - 2002 a package of normative acts in harmony with the relevant Community legislation was adopted, which aimed the creation of a proper framework for the development of business communications and information technology. On November 8, 2002 Romania has provisionally closed the chapter 19, being the first country in Europe which has implemented the new Directives adopted at Community level in communications, preparing to open the competition on the telecommunications market for 1 January 2003.

In 2002 was finalized the regulatory framework necessary for a liberalized market operation. This was achieved through setting up the National Regulatory Authority in Communications (ANRCTI), public institution with legal personality, subordinated to the Government, funded entirely from extra income, which aims to

implement the national policy on the electronic communications and postal services.

After five years from the full market liberalization, it grew in a high rhythm, well above the rhythm of the economic growth, so the number of the networks and electronic communications services providers operating on this market and the users number increased also significantly in the context of spectacular technological developments.

This investment rate of growth has allowed the recovery of significant gaps recorded until recent between the Romania and the European Union Member States. The evolution has been strongly influenced by the transposition and implementation of the communitarian *acquis* in the field of communications, the process being characterized by quickness - Romania ending before many Member States the adoption of the related legislation – as well as through special emphasis placed on the consultation and transparency mechanism.

As far as the postal services, we can be say that it has known profound transformation in recent years, both because of the technological developments and the progress of the society and the vision of public services, postal service being viewed increasingly as an economic activity, competition-based on a free market, while many countries have changed the internal legislation in order to liberalize the market and to create the regulatory authorities to ensure the compliance with competition rules.

In recent years, the Romanian communications and information technology market has been characterized by a high rate of growth, leading to alleviation of the discrepancies over other countries in Central and Eastern Europe.

3.Aspects regarding the telecommunications management

3.1. Planning the telecommunication activities

The exploitation of a telecommunication system requires considerable long term investments. In all countries, whether developing or industrialized, the demand is greater than the supply, which positively affect the investment policy. The major telecommunications companies have played an active role in financing the development of the telecommunications in other countries. In developing countries, they have placed both the necessary equipment and financial resources as loans.

The planning represents the first managerial function, by the accuracy of this stage depends in good measure subsequent operation of the entire system, which is the organization. The equipments needed for the network development is characterized by: the long life, high costs and technical complexity. All this reflects the difficulty in choosing the appropriate system to guarantee the best network development, both economically and technically.

The planning of a telecommunications network should be examined in the economic, political and social context of a country. Decisions regarding the planning should cover:

- maximizing the internal profitability - the network will be dimensioned based on expected revenues and aims the profitability of the required investments;
- the use of the telecommunications as economic and social factor of development - this issue must take into account of how the country is administratively organized (regions, districts, etc.), but it is necessary a certain precaution, since the division of the geographical areas correspond to administrative areas is not sometimes the best solution, technically and economically.

We can distinguish two types of network planning:

- the strategic planning - to define the general framework,
- the „setting in“ planning – aims the concrete way to achieve the investments.

The two types of planning will translate into:

- development plans (which must determine the main directions for the network development over the next 20-30 years), they also must define the global framework within the planning of various sub-networks will be done, in order to ensure the compliance.

- technical plans - specify the methods used in choosing and implementing the equipments, so as to ensure satisfactory exploitation in relation to the quality of required service, these plans must be common to all network and must ensure a future flexibility.

Once the network is dimensioned, it must be made a forecast of network traffic. The lack of this provision may lead to contesting the validity of the development plans. Its existence, however, allows the estimation of the future returns, the essential factor in studies made for some development plans.

The network planning is a continuous process, including the network control, knowing where it work, establishing the plans that satisfy the demand for the existing or new services, putting into service of these plans and the evaluation of the results. Also, it must be examined the characteristics of the existing network, the needs for future network, evaluate the technical feasibility of future improvements and choose the most convenient long term and short-term plan.

3.2. A new form of organization – process-based

The developments from the current environment calls for new forms of organization: cross-functional, processes-based, project-based or network-based. The characteristics of these forms are the structure adaptability and the "flatness", by reducing the number of hierarchical levels and even the outsourcing of certain activities. The closeness to the client also requires cross-functional structure along

with the value chain, which assumes the definition of the activities and the processes of an organization.

By decision of the ANRCTI an entity should be organized based on the its activities, the groups of activities being referred as business units. Such a structure may not match with the way of operator is organized, being necessary some adjustment to its organizational structure. For a fixed telephone operator, activities can be grouped into the following business units, keeping the structure required by ANRCTI:

- the "transport network" business unit - encompasses all the activities that provide a series of internal and external services of interconnection, so that users of a certain supplier can communicate with users of the same supplier or a third part or to access services provided by a third part . These services include call switching and transport services, leased lines and data transmission services. This unit includes: the interconnection, the leased lines – transport and other activities of the network of transport.
- the "network access" business unit – encompasses all the activities that are provided to the wholesale market, both domestic and other operators, and connection services of final users with the transport network.
- the "retail" business unit – encompasses all the activities which involve the supply of services to the final-users. Services that may be included in the financial statements of the retail businesses unit are: connecting telephone lines, leased lines providing market retail calls, public phones, service, information on subscribers, especially Internet access and services added value.
- the "other activities" business unit - encompasses all the activities that are not found in other business units. They refer to the production, sale, rental or maintenance of the equipments, the billing to the final-users in benefit of other operators, and other activities unrelated to the supply network or electronic communications services.

These business units are not totally separate, there are some interactions between them, which leads to an internal settling up mechanism between these units. This „activity cutting“ of the company allows it to identify and evaluate the essential activities, which adds / creates value. In the broadest sense, such an approach aims to improve the value perceived by the customers and to increase the profits by offering this amount.

3.3. Differentiation strategies

A strategic competitive advantage implies that the enterprise must enter into competition with others by having lower costs (domination by costs) or by offering superior products, more competitive (product differentiation). It's the strategic approach of Michael Porter, involving the alternative "action on the value / action on the cost," distinguishing the differentiation strategy, focuses on features (the

creation of value) and the domination strategy by costs, based on the activities efficiency which compose its value chain.

The competitive strategies have a primary goal to build the company and ensure that it implements a sustainable competitive advantage over its competitors in a particular sector of activity.

The cost strategy means that the all the strategic decision, designed to guide all the efforts over the company in order to minimize its manufacturing costs, including here the unit costs, the production, design, design, distribution and promotion. The costs minimization translates into practice by realizing economies of resources committed to manufacture a unit of product, favored by the knowledge and the use of some concepts such as the experience effect and the strategic implications which cause them.

In a differentiation strategy, the company bases its competitive advantage on the specificity of its offer, as long it is recognized as such and valorized accordingly to the market which addresses to. This kind of strategy limits the direct prices competition, and therefore the costs, promoting just the differences that make the company offer to be difficult to compare with that of its competitors.

In the case of the telecommunications operators, they can appeal at one of the two types of strategies, or even both strategies at once. Given the area in which it operates these operators, an area characterized by a very quick rhythm of innovation, the type of strategy preferred by them is through differentiation. Some companies prefer to bring new innovative products on the market, not trying at any cost, to obtain these products at the lowest costs. Customers buy such products for their unique characteristics. They are willing to pay a considerable price to benefit from the new services, which involves a last-generation technology. The cost strategies are adopted, as a rule, in case of existing services and whose costs can be reduced with the technology "aging".

In order to increase the number of customers, the companies that are active on the telecommunications market are oriented to „service packages“ that include cable television, Internet and telephony services. Difficulties will face smaller businesses that are focus only on the telephone services, or only on the Internet service. Certainly, during the next period, the battle will go on three fronts: telephone, television, and Internet. The main advantage of this package is that it perceives a single installation fee, which is calculated on the basis of positioning in the network covering area and with a single activation fee. Also, the equipments used can be bought or paid in full, in installments or can be rented.

The telecom specialists believe that "the future belongs to the total operators, able to offer a full package of services. Those who are able to gather all the services in one package have the greatest chances of success because they can offer them at lower costs, meaning lower prices. The consumer has the advantage of having a relationship with a single supplier, one bill, often with substantial reductions "[2].

4. The management impact on the accounting

For the efficient management of an enterprise, managers must have a performant information system, a reliable tool, which allows them to know any moment the situation of the company, its objectives, as well as the competitors' situation, the consistency, reliability and quickness being the main features of this information system.

The information derived both from the outside and, especially from the inside of the enterprise, must allow decisions substantiation and the possibilities for implementing them, in order to ensure the profitability of the entity, providing quality products and services at a low cost, the adequate management of the resources at its disposal.

An important source of information for management is the accounting defined as "an information system which quantifies, processes and transmits financial information about an identifiable economic entity." The main feature of the accounting information system is that the system must constitute a real tool of communication with the outside, but also within the company, between departments or sectors of activity.

Some of the information provided by accounting concerns in particular the relationships with the third parties, which become "transparent", publishable. The other part regarding the internal management of the company, determining the results at the level of sectors of activity or product, the strategy and tactics adopted by the enterprise, having a confidential character. This separation of the information generates the distinction between the two circuits of accounting: financial accounting (general accounting) and management accounting.

The information provided by the management accounting should aim the utility, the relevance for managers, for decision making, identifying the problems which it has to face and the places where action must be taken to address them. Thus, the information must be correct, timely and quality. Moreover, the usefulness of the provided information represents the basic feature of accounting information provided by the management accounting.

The competitive environment has profound implications on the cost system. Knowing the costs, their control and the performance measurement are more important issues than they were in the past. The particularities of the telecommunications require an effort of adapting the management accounting to the management needs.

A first step in this respect was the designation of the operators with a significant power on electronic communications market. There have been nominated three such operators (one from the fixed phone market and two from the mobile phone market). They are required to develop a top-down model of long run incremental for the activities related to the interconnection and the access to an operator's network or associated facilities, in order to use these costs in the

process of targeting the cost oriented prices. This cost system will be reconciliated with a bottom-up model developed by the regulatory authority.

To make adequate decisions, managers need pertinent information (relevant), accurate (precise) and to reach them at the appropriate time. For an information to be relevant, firstly it must be oriented towards the future, and secondly to be different depending on various circumstances.

Managers need costs information regarding the services that the company provides, in order to improve the operations and to better respond to customer requirements. The cost information is useful to the managers for the following reasons:

- based on cost, the decisions can be made regarding the establishment or surrender to a service, having been affected the relationships with the clients;
- the costs can be a basis for pricing decisions;
- the costs knowledge and analysis permits the identification of the improvement needs for the products / services, but also processes.

The management accounting can not be reduced only to the cost computation, subsequently used in pricing decisions. The cost should lay at the base of all the decisions regarding the management of the products / services and customers portfolio.

The simple costs computation is not sufficient if it is not completed by an analysis of them. The cost control involves the identification of its "causes", going to an analysis of all activities in the entity. This analysis is not confined only to the activities identification, but also the "root" causes of the events that determine the activities, as well as the links between the activities. Such an approach corresponds to the activity based management which aims to identify and eliminate the non value added activities and the costs of these activities. The activities that do not add value encompass the operations that are not necessary or are necessary, but inefficient [3, p.62-65].

The Romanian regulations in this field require the organization of a separate accounting for the activities related to the interconnection and access to the operators' network or infrastructure. The role of this accounting is to draw up a set of separate financial statements that include the profit and loss account, the average capital employed, the situation on the average return on capital employed (for each unit and sub-unit business) and the notes and accounting policies used.

The ANRCTI imposed the price setting on costs basis, in order to promote the economic efficiency, to ensure transparency and non-discrimination, to develop and maintain a competitive climate on the market of electronic communications services, all in order to maximize the consumers' benefits.

The directions regarding the cost computation, at least in the fixed and mobile telephony, follows a similar approach to the activity-based approach, even if the methodology and practice are not operating with this concept.

5. Conclusions

On a highly competitive and in a continuous development market, the companies must be able to permanent and active maintain themselves. On the world stage, move from the idea of competitiveness obtained only through high quality and lower prices to a new concept in which the emphasis will be put on factors such as knowledge of market competition, the company's ability to adapt to quick changes in the environment, receptivity to new, and the quickness of digesting new forms of communication.

Almost all of today organizational changes are made to improve company performance, but should not be lost sight of the fact that these changes should have the final goal the creation of an active business, able to quickly respond to the changes in environment. Such a company should be a "chameleon" one, able to quickly adapt to permanent changes. To do this, it is necessary for companies to be created and organized in a flexible manner, like small companies that can be shaped more easily, unlike the big companies. "To manage a large company in order to become fully adaptable, represents a real challenge for managers, resembling with the attempt to turn a combat vessel in a bath tub" [6, p. 5]. It is important, too, that an organization has a more diversified work, just to be more easily adaptable to change.

Currently, we assist to the globalization phenomenon, accompanied by major changes, feeling its impact on the firm's strategies. The complex and dynamic environment forces the firms to continuously innovate to extend its range of products and services offered on the market and to reduce its costs. Any company which fails to keep up with the innovation rhythm required by its competitors will be "removed from the game", whatever would have been its reputation and its position at the initial moment.

The management accounting systems play a vital role in supporting managers of the complex organizations in planning and control the processes. A management accounting system does not guarantee the competitive success, especially if the organization does not have good products, efficient operating processes, or efficient marketing and sales activities. Instead, an inefficient management accounting system, which produces delayed, distorted or too general information, can easily undermine the efforts of some companies with excellent research and development, production and marketing activities. The challenge is to create practices that support basic management functions, such as organizing, planning and control operations to achieve excellence throughout the organization.

In the current environment searching for competitive excellence seems to be the only means of survival. At present, two of the concepts which dominate the modern management of the organizations are the value and the performance. To measure the performance means to assess the value and to know the value causes means to "translate" the performance [1, p.96]. The performance measurement is

not enough unless it is examined together with the tools, activities and objectives. Furthermore, the performance should be managed.

The managers ask pertinent information relating in particular to two issues: how can the company to better position on the market and how to improve their processes, while reducing costs in the same time. The knowledge of the business at the activities levels represent a foundation stone on which later could be build in new analyses that may reveal issues which may lead to improved business performance.

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