

BOOK REVIEW**CORPORATE GOVERNANCE, PERFORMANCES MEASUREMENT,
AND NORMATIVE COORDINATION OF INTERNAL CONTROL
SYSTEMS**

by

Professor Valter Cantino, PhD



In his book “Corporate Governance, Performances Measurement, and Normative Coordination of Internal Control Systems”, published by company Data Status from Belgrade, Professor Valter Cantino, PhD, with his professional, pragmatic and simple approach, elaborates the corporate governance, performances measurement, and normative coordination of internal control systems. As such, this book presents the precious source which offers the unique cognition regarding the fact that the author lives and works in Italy. It is not necessary to emphasize how important is for Serbian economic public to acquaint with the experiences and practise in Italy through this significant book, especially at the moment when Serbia traces its way towards EU members and when the Serbian companies face the challenges of radical changes in their business operations.

This book is also popular among students, both masters and PhD studies, for dynamic business environment, where changes create changes. The productivity is imposed to companies as an imperative, and they are not only expected to note changes in time and react faster and more efficiently than competition, but the companies should be the initiators of these changes. By intensive changes, the environment creates the pressure to management to adjust continually to requests for costs reduction, companies transformation along with efficiency increases, management effectiveness, that Professor Cantino writes about.

It is also important to mention that the translation of this book into Serbian is a result of strategic cooperation between Faculty for Management, University of Turin and BBA and Institute of Economic Sciences from Belgrade. The cooperation started with TEMPUS Project BUONA, and along with book of Professor Valter Cantino, Dean of Faculty for Management, University of Turin, the result of this cooperation is master program at Belgrade Banking Academy, that enables students to get dual diploma. For publisher Data Status, this book presents the first edition translated from Italian into Serbian.

Professor Valter Cantino’s book consists of four chapters:

- The first chapter examines the corporate governance and companies’ business operations evaluation



- The second chapter examines the business risks and internal control systems
- The third chapter deals with the functioning of control undersystems in companies according to the rules of Italian law, analyzed as the task of the most important managers and organs
- The fourth chapter discusses the integrated models for measurement, control and coordination of business performances

The first chapter starts with the analysis of relation between companies and environment with special view on political and legal environment as a context in which the corporate governance rules, and affect, as a part of legal regulations.

The experiences proved that former governance systems were not reliable enough and the result was break-up of big companies, numerous affairs and scandals. Thus, the legislators took measures in order to modify the governance rules. Professor Valter Cantino used the case of Italy to show the changes in governance rules of a company, realized in the set of new laws, codes, regulations. The alternative governance models were introduced by the reform of company law.

Analysing the corporate governance as “team of management rules and procedures which the management and control system consists of, and defining legal and moral obligations to be obeyed by economic subject in performing its economic activity”, the author provides the basic model characteristics of corporate governance which companies can apply. Starting with shareholders structure and structure stability, the author indicates the differences between private, partnership and public companies, giving the detailed analysis of corporate governance model in Italy. The Civil Law reform in Italy offered the Italian companies the new solutions and possibilities to choose the model that suits most their governance dynamics. The basic characteristics of Italian models are completed with scheme reviews which define clearly the role of control organs.

As a result of company transformation process, the management faces the growing pressure due to stronger competitiveness and continual tendency for efficiency increase as well as challenge of finding the solution for greater transparency towards all interested parties. In this context, Professor Valter Cantino focuses on the strategy which enables the company to realize the goals and achieve the expected results. Regarding the fact that even the potentially successful strategies do not achieve the a priori expected results, and that a number of assumptions affect the transformation of strategic tendencies into desired results, the author defines the strategy diagram.

The company success depends mostly on its ability to adjust to changes and to face the pressures of environment. The author presents the basic characteristics of companies with performances, that provide concept definition of corporate performances governance along with the elements, the modern organizations should affect, in order to become the same.

According to the author, Professor Valter Cantino, in economic sense, the risk is a condition for existence of a company. The company’s business operations and decision processes are carried out in the circumstances of uncertainty. Indicating the close connection between the risk management systems and internal control systems, the second chapter of the book examines business risks and internal control system. The author emphasizes that the internal control is an integral part of management system and risk control. In uncertain circumstances the task of a company’s management is to govern the business risk portfolio



and in that context, to be acquainted both, with risks, which jeopardize the goals realization and with the actions which should be taken to prevent and control them. Thus, only by the consolidation of risk management system and internal control the efficient corporate governance could be reached.

The internal control system is becoming a crucial element for efficient management of a company. It is the control which is carried out within a company, in order to provide goals realization and maintenance of the state of formal and vital regulations. The internal control has an important role in risk management process by its own control and advisories.

Under the company's risk management Professor Valettr Cantino considers the following activities: risk defining, that encompasses the review of risk processes and potential risk analysis, and control system projections, that includes preventive control system analysis and evaluation of remained risks.

The numerous financial scandals initiated the necessity for strengthening a company's internal control system systematically - by the corporate governance norms with a special accent on management responsibility. The author illustrated the evolution of business risk management model and internal control system in USA and Europe.

The third chapter explores systematically the norms and procedures regarding a company's organs that are incorporated into a company's control system, with special view on internal auditing function, function of Head of Financial Department and Advisory Body, on the case on corporate governance in Italy. According to the definition of the Institute of internal auditors, the internal auditing presents "independent and objective, control and advisory system, aimed at better efficiency in organization". In this part, the author explains how the operational control concept, which is performed by internal auditing, contributes to the goals realization and operational risks management process.

A special attention is given to the control system realization of the Head of Finance. The need of the Italian companies to be present on the international financial markets requires the adjustment to the international practice, which resulted the approach of Head of Finance function to 'international model', CFO, and in author's opinion these two functions will probably cover one another in future. In this context, the foundation of internal accounting and management control system is of great importance for Head of Finance to realize his operational activities successfully. The author illustrated graphically the project for evaluation and internal control system coordination dividing it into five stages: evaluation, analysis, process view, corrective activities and monitoring. The goals and associated activities of each of these stages are explained in details.

Eight years ago, for the first time, the Italian legislation introduced the term - criminal liability for organizations that is added to the individual criminal liability. In order to prevent itself from this kind of liability for possible individual criminal liability, a company has to apply a relevant prevention organizational model. Upon detailed description of all possible aspects of criminal liability, which could be transferred on a company, the author discusses about legal recommendations regarding the establishment of "preventing model". The conclusion is that the preventing control system can protect a company from responsibility only if there is no possibility that the criminal act has been done due to the ignorance or wrong interpretation of regulations and directives in a company.



The effective implementation of preventive regulation mechanism in a company requires a corresponding advisory body, authorised for periodical functioning check up. The author systematizes the various tasks and activities which are in charge of advisory body, emphasizing the significance of its autonomy, independency and professionalism that enables a company to perform its ethic codex.

Professor Valter Cantino begins his presentation of integrated model for measurement, control and business performances coordination by description of legal changes which enlarged the importance of organizational part of a company, which is in charge of financial management and control, that is, its Head - Chief Financial Officer (CFO) in business performances measurement process.

Speaking about more and more complex and strict demands for tracing the economic and financial data, financial management and control are faced with, as a result of severe normative system, the author focuses on a problem of insufficient economic efficiency, that could occur as a consequence of such coordination. Having in mind the fact that the research activities are more and more exposed to the growing demands of normative coordination, the effective result could be reached by transfer from separate corporate governance solutions to holistic ones.

To contribute successfully to performances measurement and normative coordination, integrated into control system of a company, the organizational part for financial management and control has to establish a systematic and fruitful cooperation with other services, incorporated in the process of data processing and information regarding the management and financial issues. The author refers to clearly defined hierarchical structures between CFO and subjects who perform control activities within complete corporate governance project, with special accent on relation modalities of CFO and Board of Directors.

The information systems, management control and human resources organization and development are typical section which take part in information process of a company performances. From the view of information technologies, the author points out two important aspects for elaboration of economic and financial information: regular evaluation of incorporated procedures coordination with information processes and effectiveness of information instruments in integrated management of a company. The special attention is given to ERP information systems (Enterprise Resource Planning) in controlling the data coordination, especially in consolidation of a group of companies and difficulties in realization of procedures which differ from existing procedures. By law, the CFO function is to confirm the identical statements in accounting books and official documents which a company submits to the market. The completeness of assumptions on continual business procedures monitoring and specific checks of proper control are inevitable pre-conditions for objective and credible review of a company's performances. In this context, the author analyses the concept of relation between CFO and internal auditing as customer-supplier, whereas the service for internal auditing provides information regarding the adequacy, and functionality of internal control system. In addition, the cooperation between CFO and advisory body, which contributes to transparency of control system, is also of great importance.

Finally, Professor Valter Cantino, analyses the implementation of integrated measurement model, control and normative coordination of business performances. The first



illustration shows the model which, by synthetic presentation of relations between management instruments, internal control systems, and coordination with internal rules, results the coherent corporate governance model, including the instruments for business performances measurement and coordination with internal and external norms. The second illustration, which refers to “spider’s net of norms, depicts the internal control system and corporate governance rules as “railtracks connected by ties, specific domains regulated by relevant norms. Thus, by adding the new norm ties, a company can safely trace its future way.

Zdravković Aleksandar,

Institute of Economic Sciences, Belgrade

Beraha Isidora,

Institute of Economic Sciences, Belgrade

Domazet Ivana,

Institute of Economic Sciences, Belgrade