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# THE CHANGE IN MANAGEMENT ACCOUNTING. AN INSTITUTIONAL PERSPECTIVE FOR ROMANIA

Empirical  
research

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## JEL Classification

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## Abstract

*The objective of this paper is to present the process of change in management accounting in Romania, a former communist country from Eastern Europe. In order to explain this process, we used the institutional theory. We focused on the presentation of the scientific context and motivation of this research from a national perspective. We also described the evolution of management accounting in Romania in the context of economic and political changes. An important moment was the fall of communism in 1989. This represents a starting point for a new economic environment and for a new management accounting system. We described the creation of the new rules and routines based on the results of a questionnaire.*

## 1. Introduction

The changes in management accounting are a popular subject in international accounting researches. A specific interest is represented by the way in which this process occurred in the countries situated in Eastern Europe, considering that, for a four decades period, they had a socialist accounting. Within this period, management accounting, in its present sense, did not exist. There was only a full cost computation process, which was used for the selling price determination. Knowing the fact that there was an alignment of all the prices at the level of the national economy, the prices having a fixed character, the role of the cost computation was limited. The passage to a market economy, at the beginning of the 90s, represented a change of economic paradigm for the countries in Eastern and Central Europe, with consequences on accounting, implicitly on management accounting, the change mechanism being a specific one. A representative case for the analysis of change at the level of management accounting, in the context of the change of the type of economy, is represented by Romania.

The last twenty years witnessed an unprecedented experiment in accounting policy-making in Romania. Even though the authorities emphasize the financial accounting, the offer of relevant management accounting information is as important. To analyse the change in management accounting in Romania, we started from the presentation of the main moments which generated changes in accounting.

The analysis of Romanian accounting should be made taking into account several reference points, such as the economic and political changes that occurred in time. A particular aspect is the fact that the change of economic (the transition to a socialist economic system in 1948 and its collapse in 1989) and political doctrine (the existence of a Communist regime in the same period) brought radical changes in

the accounting field. These changes are correlated with the similar ones that occurred in other Central and Eastern European countries. Thus, in the twentieth century Romania was governed by several accounting systems in line with the existing economic and political systems.

The remainder of this paper is organized as follows:

- we present the state of the art in the process of change in the management accounting – the national perspective
- we introduce the institutional theory;
- the next section is dedicated to the research methodology;
- the results of our study follow;
- the paper ends with our conclusions.

## 2. The presentation of the scientific context and motivation

Romania represents a particular case, which is yet representative for the Eastern European countries. This case is interesting from the perspective of studying the change in management accounting, from the following considerations: (i) from the historical point of view it is one of the ex-socialist countries, which led to a specific evolution, compared to other European countries; (ii) in the last two decades, the economic environment was dynamic, evolving towards a market economy; (iii) the accounting system acknowledged several changes.

The literature review on management accounting systems in developing economies testimonies for the very fragmented nature of their findings in terms of environment and political conditions, stage of development, orientation towards specific techniques (Albu&Albu, 2012).

The process of change in management accounting is driven today by the globalization, the introduction of the new technologies, the financial crisis, the use of

ERPs, the increase in the value of the intangibles etc.

An analysis of the change in management accounting has to be done according to the economical-political context. In the specialized national literature several classifications exist: Ionascu (1997), Calu (2005), Laptés (2007). In this paper we will start from the classification made by Calu (2005). The criterion was “mutations in Romanian accounting literature or changes of the economic paradigm”. The author identified the stages enumerated in Table 1.

Before 1990, Romania had a Soviet accounting system. This was actually an integrated system. At the beginning, the management accounting was not applied in the industry. As a consequence, the operational result couldn't be established. However, in the Soviet accounting system, the selling price was computed as in Table 2 (Evian, 1947). Until 1950, the management accounting field focused on determining the full costs and on the budgeting process.

From 1950 till 1989, the practice of management accounting in order to achieve useful information for a decision was not allowed. The decision-making process was not in fact a game of choices, but a required exercise. The prices were the same at the level of the entire economy. The model used for the computation of the cost was almost the same as in the previous period.

The year 1990 represents the first moment of freedom in the economic, social, political and cultural environment in Romania. As a consequence of this situation, a time of transformation came for the accounting field as well. Since 1990, preparations for an accounting reform are underway, beginning with the enactment of the Accounting Law No. 82/1991. The starting point of this process was the French accounting system. Romanian academics were the proponents of the accounting reform. The reform initiated in early 1990 was later continued

by the Romanian Accountancy Development Programme, started in 1997. Romania has now a dualist accounting system, and normalization is performed by the Ministry of Finance. Alike other continental European countries, Romania has a two-stage accounting system (Feleagă, 1996), mainly due to the French influence during the first step of reform and to the use of information produced by financial accounting mostly by the state (Albu&Albu, 2007).

Since 1989 management accounting has undergone numerous changes. This field was not covered by the Accounting Law No. 82/1991, which only included a few paragraphs mentioning management accounting. When the first version of the law was enacted, management accounting was perceived as optional, when in fact the only optional aspect was the way in which it was carried on and adapted to the specific features of the economic activity. The situation was maintained after the publication of Order 1826/2003.

Glavan et al. (2007), Jinga et al. (2010) and AlmasanandGrosu (2008) identified in survey-based studies the existence of management accounting systems in companies and also the use of the information provided by monitoring costs, determining the selling price, making products decisions and, to a lower extent, by improving product quality and implementing the strategy. Albu and Albu (2012) research indicate that the most important factors associated with the existence and use of management accounting techniques are the type of capital and size.

Albu et al. (2010) conducted a case study investigating several Romanian medium sized companies in the construction field belonging to a group of companies that implemented management accounting systems as support in decision making. Although these studies are located at the level of a single company, they offer some evidence about the role of several organizational and environmental factors

influencing management accounting systems in Romanian organizations. Most of the Romanian research focuses on generic settings (Dumitru et al., 2011) and not on specific industries or services (such as, for instance, Dutescu et al., 2009).

Albu and Albu (2009) apply the institutional theory studying the change in the accountant's role. They conclude that the accountant evolved since 1989 from "bean-counters" to "business consultants" and information providers. The role of the accountant changed from performing simple accounting treatments to offering support in complex decision-making processes.

## 2. The institutional theory

Nowadays, the researchers employ the institutional theory in order to describe the process of change in management accounting. The institutional theory developed in three directions: the old institutionalism, the new-institutional theory and the archetype theory.

The most used theoretical framework describing the change in management accounting using the old institutional theory is the one published by Burns and Scapens (2000). It focuses on the institutionalization of new rules and routines in the organization's realm. The framework deals with a few elements, such as: rules, routines, habits, culture and norms. The institution is "a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people" (Hamilton, 1932, p 84). According to Burns and Scapens (2000), the rules are "formally recognized ways in which things should be done." Routines are "patterns of thought and action which are habitually adopted by groups of individuals." Järvenpää (2007) identifies different kinds of change: adaptation, adjustment, development, going backwards, innovation, shifting, replacement, reorganizing and redesigning (Järvenpää, 2007). Schein (1985 cited in

Järvenpää, 2007) identifies two categories of cultural interventions: (1) primary interventions (e.g. the allocation of the critical resources by the top management), and (2) secondary tools (e.g. managerial practices).

Another direction employed by the researchers is the new-institutional theory. According to it, the change happens because of the pressures which act on the company. DiMaggio and Powell (1983) identify three types of isomorphic pressures: mimetic, coercive, and normative. The mimetic isomorphism appears if a company copies another company when making a change. The coercive isomorphism appears when the regulatory bodies impose on the companies the adoption of an innovation. The normative isomorphism represents the adoption of innovations imposed by the profession. In our opinion, the new-institutional theory cannot be applied in the case of management accounting. In general, management accounting has a secret character, thus it cannot lead to mimetic isomorphism. It is not subject to a rule, being organized by each company in its own way, resulting that it cannot be subject to coercive isomorphism. On the third hand, it is not imposed by profession, as would be the case of normative isomorphism.

The third theory, of archetypes (Liguori and Steccolini, 2012), suggests that the change happens differently in organizations, because information is filtered through internal processes of interpretation and attribution of meanings.

## 3. Research methodology

Our research relies on a survey distributed to companies located in Bucharest. We sent approximately 400 questionnaires and received 62 answers. 17% of the companies in our sample activated in the production domain, 39% in services, 37% in distribution and 7% in other domains. Our questionnaire tested the opinion of the managers regarding the usefulness of the

management accounting information. Our research hypothesis is that new management accounting tools were institutionalised in Romania after 1989.

#### 4. Results of the study

Our results show that the management accounting information is useful when making the following decisions:

- monitoring and lowering costs (74.63%);
- externalization decisions (52.36%);
- giving up on certain types of products and projects (50%);
- accepting additional projects and orders (48.65%);
- setting the selling price (47.3%).

The management accounting information is used by the managers on a monthly basis in 40% of the cases, twice a month in 15.6% of the cases and in 18.8% of the cases it is required weekly.

About 97.4% of our respondents use a cost monitoring system. The cost monitoring system was developed on average after four years. This shows that the monitoring systems are institutionalized only after the management gains experience in the domain in which it activates.

In terms of institutionalized cost accounting method 25.64% of organizations use job costing, 20.51% use global method, 17.95% don't know the name of the method or don't use any method, 12.82% use ABC method, 7.69% apply direct-costing and 5.13% use target-costing.

The most used tools for managerial decisions are the financial statements and the trial balances, followed by profitability analysis, investment budget and the cash flow statement.

The procedure for the collection, processing and presentation of the management accounting information was developed internally (59%), adopted from the mother company (20.5%) or developed by a specialized company (12.8%).

64.29% of the respondents compute the efficiency on cost centres.

Comparing the situation in Romania with the one in the developed countries, we notice that the traditional costing techniques are still prevalent to the advanced costing techniques. Yet, the managers start being interested in the management accounting practices, in the management and organisational control and in performance measurement.

#### 5. Conclusions

Our results show that new management accounting tools were institutionalized in the Romanian companies. Among them, we notice that these companies started to use new costing methods, such as ABC or target costing. Almost all the respondents (97.4%) use a cost monitoring system. It is interesting that most of the collection, processing and presentation procedures were developed internally, which shows a maturity of the companies and of the environment in which they operate. Many companies compute the efficiency on cost centres (64.29%) and use the management accounting information in the decision-making process.

Yet, there is still room for further improvements. For instance, most of our respondents declare that they use the management accounting information monthly and that the most used tool are the financial statements.

A limitation of our study is given by the reduced number of companies included in our sample. We consider that the issue of change in management accounting in Romania can be further investigated through case studies.

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*Appendices*

**Table No. 1.**  
***Stages in the development of accounting in Romania***

<i>Time</i>	<i>Stage</i>
1837-1907	<i>The double-entry popularization stage</i>
1908-1948	<i>The professional and scientific debates stage (the synergy effect stage)</i>
1949-1989	<i>The accounting hermetism stage</i>
1990 - Present day	<i>Opening up to international influences stage</i>

Note. Source: Calu (2005)

**Table No. 2.**  
***Computation of cost and selling price***

<i>A. Raw materials for manufacturing</i>	<i>Manufacturing costs</i>	<i>Production costs</i>	<i>Own costs</i>	<i>Net selling price</i>	<i>Gross selling price</i>
<i>B. Manufacturing wages</i>	<i>A+B</i>	<i>A+B+C+D</i>	<i>A+B+C +D+E</i>	<i>A+B+C+ D+E+F</i>	<i>A+B+C+ D+E+F+G</i>
<i>C Special manufacturing overheads</i>					
<i>D. Joint manufacturing overheads</i>					
<i>E. Administrative and selling costs</i>					
<i>F. Legal earning</i>					
<i>G. Special sales costs</i>					

Note. Source: Evian(1947)