

## MANAGERIAL AND COST ACCOUNTING PRACTICES – A ROMANIAN OVERVIEW

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*Research theme – Globalization and technological changes generates complexity both in the business environment and the accounting systems. Under these conditions managerial accounting needs to learn new practices in order to become an active consultant of management.*

*Objectives – The main objective of this paper is to present how managerial accounting changed over the years in Romania. We intend to present how the managerial accounting system is implemented within Romanian organizations, to report the level of adoption of traditional practices, tools and techniques, to identify to what extent contemporary managerial accounting practices are implemented and used, and finally to identify whether managerial accounting information is useful for business decisions.*

*Prior works – Over the years researchers from all over the world were interested in managerial accounting changes and innovations, in managerial accounting practices, tools and techniques adopted by organizations. On international level the study made by Pavlatos and Paggios (2009) and on national level the study made by Jinga et al (2010) represents the starting point of our study. Both research team conducted a study on managerial accounting practices and the utility of managerial accounting information and found out that managerial accounting information is useful for managers in the decision making process but traditional practices, tools and techniques are used to “produce” this type of information.*

*Design/methodology – An empirical study was conducted in 2010 within Romanian accounting professionals. A questionnaire was sent to a number of 1871 professionals members of The Body of Expert and Licensed Accountants of Romania regarding managerial accounting practices, tools and techniques adopted and implemented. Data obtained was processed and analyzed with the help of descriptive statistics.*

*Results/findings – Romanian professionals consider that managerial accounting information is useful for management in the decision making process but these information are” produced” using traditional managerial accounting practices, tools and techniques are preferred by Romanian organizations in the detriment of modern practices like activity based-costing or target costing.*

*Implications – The results of our study represents a reference point for both researchers and practitioners who are willing to carry on future research in the field of managerial accounting.*

*Originality/Value – This paper tries to fill a gap in the literature related to the Romanian managerial accounting systems and practices. Moreover, it present an overview of managerial accounting practices within Romanian companies giving the possibility to formulate suggestions and proposals for its future development and evolution.*

*Keywords: managerial accounting, cost systems, practices, empirical survey, Romania*

*JEL classification: M41- Accounting and Auditing*

## **1. Introduction**

In today's fast changing business environment, where knowing more and knowing it faster than the competition is often the difference between surviving and not surviving, organizational learning and knowledge management becomes a crucial organizational function (Huber 1998:1). This organizational function leads to rethinking managerial practices and tightly related to this reshaping the existing accounting systems especially the managerial accounting systems.

At international level there is an intensive debate on the changing role of managerial accounting and managerial accounting professionals (Jarvenpa 2007). Researchers believe that managerial accounting is being oriented from being a scorekeeper or a bean counter towards an increasingly business oriented role (Burns and Baldvinsdottir 2005; Jarvenpaa 2007; Warren and Parker 2009). Moreover, they consider that new managerial accounting techniques like strategic cost management, activity based costing, balanced scorecard or customer relationship management enhance the business orientation of managerial accounting.

On national level, changes generated by globalization, intensive competition, the automation of production processes penetrated more slowly, especially because of the political, social and economical context of our country. That is why managerial accounting in Romania has had a different evolution, has met different approaches, goals and objectives (Cardos et al 2010:58). Anyway, managerial accounting information is essential in gaining competitive advantages, is an indispensable instrument for the decision making and that is why, in order to survive, Romanian companies are being forced to align to the new tendencies and technologies, to reinvent their activity in accordance with market and customer needs (Jinga et al 2010).

These changes identified on international and national level encouraged us to do research in the field of managerial accounting. Our objective is to present an overview of Romanian managerial accounting in practice. We try to find answers to the following questions: How managerial accounting evolved in Romania over the years? What kind of managerial accounting practices, tools and techniques are preferred by Romanian practitioners? Is managerial accounting an active advisor of the management in Romanian organizations? To what extent are managerial accounting information used in the decision making?

## **2. Studies made in the field of managerial accounting – literature review**

At international level there has been an intense debate on the role of managerial accounting in recent years. Accountants, researchers and consultants have sought to develop different kinds of advanced managerial accounting innovations and systems in order to cope with the needs of today's turbulent, global and technology-driven world (Jarvenpaa 2009). Because of these changes researchers from all over the world tried to evaluate how managerial accounting research developed (Hopper et al 2008); to identify how traditional or new managerial accounting practices and techniques were adopted and implemented within organizations (Falconer 2002; Gupta and Gunasekaran 2005; Hopper and Major 2009; Pavlatos and Paggios 2009).

A relevant study and starting point for our study was the one Pavlatos and Paggios made in 2009. They tried to identify the managerial accounting practices implemented in the Greek hospitality industry, especially to report the level of adoption and the benefits derived from traditional and contemporary methods and techniques. Their findings show that traditional managerial accounting is "very much alive and well" (Pavlatos and Paggios 2009:81). Traditional techniques, such as standard costing, budgeting, are still widely adopted than recently developed tools.

In Romania managerial accounting had a different and slower evolution; it was strongly influenced by political and social regimes and by the development of the Romanian economy and business environment. For many years managerial accounting was associated with cost accounting and its main objective was to calculate, monitor, analyze and control production cost;

to plan and control the process of resource allocation through budgets and other management tools (Cardos et al 2010). At the beginning of '90 managerial accounting was reconsidered, we witnessed a separation of the two components of the accounting system (financial and managerial accounting). After 2000, influenced by the international literature, managerial accounting experienced a modern approach. New functions and roles like providing relevant financial and non-financial information to management, analyzing and monitoring internal business processes, were associated to managerial accounting.

Over the years Romanian researchers tried to present the evolution of managerial accounting and the managerial accounting profession in Romania (Albu 2006); tried to identify how managerial accounting was perceived by researchers and practitioners (Cardos et al 2010); tried to establish the level of adoption of traditional and contemporary managerial accounting tools and techniques (Jinga et al 2010) and finally tried to evaluate the utility and usage of the managerial accounting information (Glavan et al 2007; Jinga et al 2010).

The study made by Jinga et al in 2010 is similar with our study. They tried: (1) to establish the attitude of the managers within Romanian companies towards the information generated by managerial accounting; (2) to evaluate the utility and usage of managerial accounting information in the decision making process; (3) to identify the specific instruments, tools and techniques used for collecting and analyzing managerial accounting information. Their main conclusion is that managerial accounting information is very useful for business development, for monitoring and lowering costs or to increase the products quality. As for managerial accounting practices the main conclusion is that within Romanian organizations traditional tools and techniques are still used. Managers seems to prefer methods like global absorption method, job costing, direct costing instead of activity based costing or target costing.

We can observe that the Romanian managerial accounting literature is poor, little is known regarding the managerial accounting practice in Romania; there are only a few studies about the role and function of managerial accounting, about the managerial accounting practices, tools and techniques adopted by Romanian organizations in today's changing environment, in the era of globalization and technological change. That is why through our study we intend to fill in a gap in the European and international literature. Moreover, our findings could give us the possibility to formulate suggestions and proposals for the progression and evolution of Romanian managerial accounting.

### **3. Managerial accounting practices and cost accounting tools and techniques in Romania**

#### ***Research methodology***

The main objective of this paper is to present how managerial accounting is perceived by Romanian practitioners, to report the managerial accounting practices and cost calculation techniques and systems adopted by Romanian organizations and to report if and how managerial accounting information is used by managers. In order to find an answer to these questions we conducted an empirical survey, via questionnaire, among Romanian accounting professionals members of The Body of Expert and Licensed Accountants of Romania. The respondents were asked to indicate: (1) the way managerial accounting is organized; (2) the objectives and functions of managerial accounting; (3) the applied practices, techniques and cost systems; (4) the utility of managerial and cost accounting information in the decision making process.

The questionnaire and a covering letter explaining the purpose of the study and presenting the instructions needed to fill the questionnaire was sent to a sample of 1871 certified accounting professionals. Finally, we received 178 responses, generating a response rate of 9.52%. Of the 178 responses 32 were eliminated, remaining 146 valid responses. The collected data was processed using SPSS and was analyzed and explained with the help of descriptive statistics.

### Research findings

After processing the data obtained we found out that the respondents came from various industries. Services were represented by 53.4% of the respondents, followed by the manufacturing industry with 26% and trading with 13.7%. Besides these industries other activity sectors like public and local administration, banking or healthcare was represented by 6.8% of the respondents.

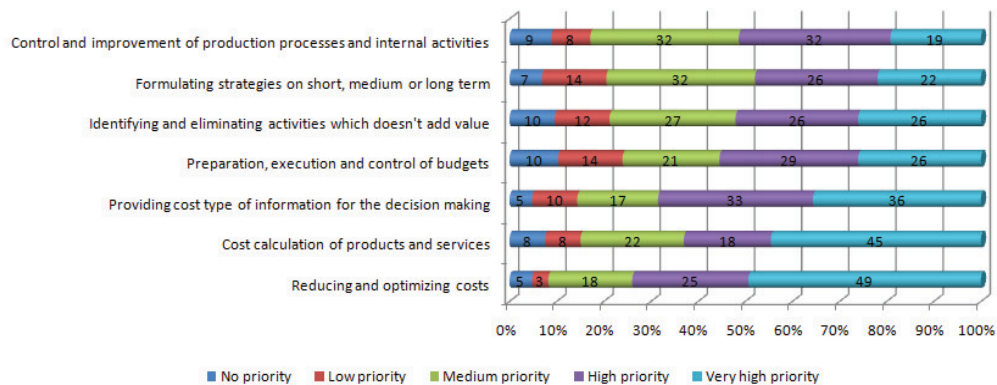
Romanian organizations seems to recognize the importance, necessity and utility of managerial accounting as they implement a managerial accounting system but they do not rely very much on current regulation preferring to develop their own systems and techniques in accordance with their specific activity. The results shows that 9.6% of the respondents developed a separate managerial accounting system considering the actual regulations; 43.2% of the respondents are using an integrated accounting information system; while 39% developed a specific managerial accounting systems and adopted specific methods and techniques in accordance to their activity and internal processes (Table nr. 1).

**Table nr. 1 – The development of managerial accounting systems**

| Adoption and implementation of managerial accounting systems |   | Frequency  | Percent    | Cumulative percent |
|--|---|------------|------------|--------------------|
| Valid  | Development of a separate managerial accounting system                            | 14         | 9.6        | 9.6                |
|  | Integrated accounting systems (for financial and managerial accounting)           | 63         | 43.20      | 52.80              |
|  | Development of specific managerial accounting systems in accordance with activity | 57         | 39.00      | 91.80              |
|  | Non respondent  | 12         | 8.2        | 100.0              |
| <b>Total</b>   |   | <b>146</b> | <b>100</b> |                    |

*Source: author's projection*

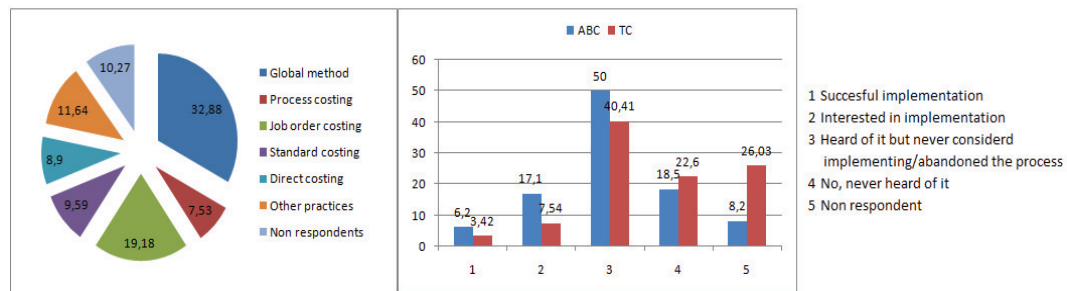
As for the objectives and functions of managerial accounting reducing and optimizing costs, cost calculation of products and services, budgeting or providing cost type of information for the decision making is considered to be a top priority of managerial accounting within Romanian companies. On the other hand objectives like identifying and eliminating activities which doesn't add value or control and improvement of internal business processes are considered to be not so important (Fig. nr. 1).



**Fig. nr. 1 – Objectives and functions of managerial accounting in Romania**

*Source: author's projection*

An other objective of our study was to found out what are the managerial and cost accounting tools and techniques used by Romanian practitioners. After analyzing the data collected we found out that (Fig. nr. 2) traditional managerial accounting practices like global method, job-order or process costing, standard costing are widely adopted and implemented by Romanian companies. They do not place great emphasis on more recently developed tools and techniques like activity based costing or target costing. The figure below shows that only 6.2% of the respondents implemented successfully activity based costing method and 3.42% implemented target costing while the majority has heard about these methods but never considered implementing them or abandoned the implementation process.

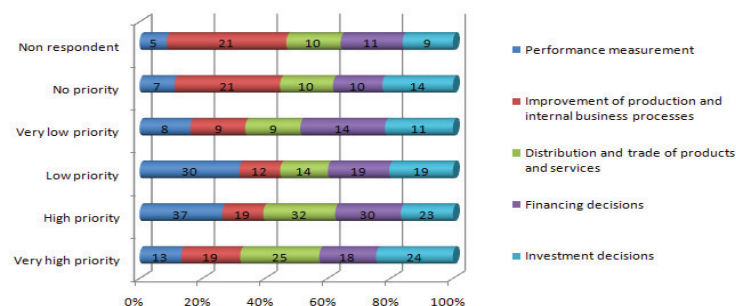


**Fig. nr. 2 – Managerial and cost accounting practices, tools and techniques**

*Source: author's projection*

Romanian practitioners seem to be pleased by traditional managerial and cost accounting practices and techniques and with the results obtained. They consider that contemporary tools and techniques require high implementation and maintenance costs; complex and complicated design and work processes.

After presenting the main aspects regarding managerial accounting practices within Romania companies the final objective of our study was to present to what extent managerial accounting and cost type of information is used in the decision making process. Our results indicates that managerial accounting is an advisor of management, the respondents considering that the information provided are useful for business development; in operational, tactical or strategic decision making. Moreover, based on cost type of information managers can take decisions regarding the improvement and design of internal production and business processes; the distribution and trade of products and services; performance measurement; investments or finances (Fig. nr. 3).



**Fig. nr. 3 – The utility of managerial and cost type of information in decision making**

*Source: author's projection*



#### 4. Conclusions

With our study we tried to find out the way managerial accounting is organized within Romanian companies; the objectives and functions of managerial accounting; the managerial and cost accounting practices; and whether managerial and cost type of information is useful or not in the decision making process.

Our results are in line with the conclusions drawn by Pavlatos and Paggios (2009), Albu (2006) or Jinga et la (2010). Romanian companies seem to recognize the importance and utility of managerial and cost accounting as they are implementing managerial accounting systems integrated or separated by the financial accounting system. However, in this implementation process they do not rely on current regulations, rather preferring to develop their own methods, tools and techniques adapted to their specific activity. Despite these concerns we consider that Romanian companies rely mostly on traditional practices and techniques neglecting contemporary and recently developed tools.

Our results indicate that managerial accounting is closely related and tied up with cost accounting. This strong connection between them derives from the use of contemporary managerial and cost accounting practices and techniques which are not adapted enough to face new production and market conditions or the needs of competition. Romanian companies are too preoccupied with cost calculation and management, with budgeting or with the improvement of internal production and business processes and in the same time they tend to neglect the customer's needs, market conditions and intensive competition.

We consider that in a world of globalization and intensive competition; in the era of automated and advanced production processes and technologies more attention should be given to the orientation towards market and customers, along with attention given to customer behavior, buying behavior patterns and customer profitability. Under these conditions Romanian companies will be forced to implement advanced managerial accounting practices, tools and techniques in order to improve their cost control and cost management systems; to improve the performance indicators; to realize an accurate analysis of customer profitability analysis and performance measurement.

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