

■ European traditions in accounting

Accounting tradition in Romania: Challenges and opportunities in a changing environment

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With a population of around 20 million inhabitants, Romania is the seventh largest member of the European Union, and has the largest GDP in South Eastern Europe. A number of fundamental changes occurred in Romania over a relatively short space of time. Therefore, Romania is an interesting case to discuss the process of change, starting from the economic and political level, and continuing with accounting regulation and practice. Accounting education and research had to keep the pace with these changes and reinvent in order to respond to the challenges of each period of time.

Evolution and change of the country's accounting model

The pre-communist period

Beginning with the 16th century, Romanian territories were under the influence of the Great Powers, i.e. the Ottoman, the Habsburg and the Tsarist Empires. The Romanian territories' struggle for independence, the combats and the conflicts resulted in a late economic development, despite a very favorable position for commerce (the Romanian territories being a bridge between Central Europe and the Far East). Independence was gained only in 1877, and the first strong signs of economic development became visible. Accounting developments were in line with the economic and political ones. The first accounting books in Romanian were written in the late 1830s, as translations from German,

French or Italian, and the first original book of a Romanian author (Theodor Ștefănescu) was published in 1873. Accounting education also developed in the same period.

Advancements were more obvious after 1918, when the modern Romania was created by the unification of the Romanian provinces. The increasing role of accounting, the prior knowledge accumulation and the country's economic development permitted the progress of accounting practice and theorization. **This is the time of refinements, personal contributions, and scientific debates.**

In 1908, the first Romanian accounting journal was created – General Journal of Commerce and Accounting (ro. *Revista Generală de Comerț și Contabilitate*); in 1913 the Academy of High Commercial and Industrial Studies (ro. *Academia de Inalte Studii Comerciale și Industriale*, the current Bucharest Academy of Economic Studies, ro. *Academia de Studii Economice din București*) was established in Bucharest, while the Body of Chartered Certified Accountants and Authorized Accountants of Romania (ro. *Corpul Contabililor Autorizați și Experți*, the current Body of Expert and Licensed Accountants of Romania, ro. *Corpul Experților Contabili și Contabililor Autorizați din România - CECCAR*) was established in 1921. In 1940 discussions on the topic of accounting regulation emerged, the plan being to have a strong orientation towards the chart of accounts (as developed by Schmalenbach). But these developments were not continued, and the regulation of accounting was a plan never finalized under the intended conditions.

The communist period

After the Second World War, Romania entered the Soviet Union's influence,

which led to the switch to a planned and centralized economy. The theoretical and methodological basis was the "Soviet experience", and Soviet accounting books were translated into Romanian. Under the communist regime, a form of Soviet accounting was introduced, in which prices were regulated by the State, and accounting was merely a means for gathering information by and for the State. CECCAR was dismantled in 1951, and 'undesirable' academics were removed from their chairs.

Consequently, for 40 years **during communism Romanian accounting had a low status and was largely a matter of clerical bookkeeping**. As regards accounting research and education, the Soviet experience had to be followed, and little room remained to develop the pre-communist legacy.

The post-communist period

After the fall of communism in December 1989, Romania underwent a number of dramatic economic and accounting reforms that better reflected western business principles. Until today the Ministry of Public Finances remains the accounting regulator. In terms of accounting (financial reporting) model, there were three main steps in the accounting reform.

The first step of reform was based on **the French accounting model**, given the historical, economic, political and cultural considerations. The French model revived some concepts and theories used in Romania before the communism. For example, Romania, like other European continental countries, had a tradition of using the *patrimonial* (from the fr. *patrimoine*) view in accounting.

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However, the economic problems after 1990 led Romania to consider applying for and ultimately secure several agreements with the World Bank and International Monetary Fund. As a prerequisite of these agreements, IASs were adopted starting 1999 for all large entities. This second wave of reform was carried out under the auspices of the British Know How Fund, and therefore it is called **the Anglo-Saxon influence** on the Romanian model. The IASs and the then existing IASC's Framework (with a few carve outs such as consolidation and inflation accounting) were translated and included in the national regulations, along with a chart of accounts and other provisions in line with the European Directives. The empirical research conducted regarding that period found a reduced level of IASs application in practice. IASs' complexity, the importance of taxation or the lack of demanding users were the main explanations for this state of affairs. For example, Bucharest Stock Exchange was established in 1995, had and still has a relatively small number of listed entities. The small and medium sized entities benefited from simplified regulations, in line with the European Directives.

In 2005, in order to prepare the EU membership, new accounting regulations were issued. This third step of the accounting reform represented **the enactment of the European Directives**. Currently IFRSs are mandatory for listed entities in consolidated financial statements and financial institutions (starting 2012, banks use only IFRSs and some other public entities are required to prepare a second set of financial statements under IFRS).

Accounting profession

Dismantled by the communist regime very quickly, **CECCAR** was recreated immediately after 1990, and has today more than 55,000 members. Also as a

request of the International Monetary Fund and of the World Bank, the Chamber of Financial Auditors of Romania (ro. Camera Auditorilor Financiari din România - **CAFR**) was established in 1999, this professional body having today over 2,500 individual members and 800 firm members. Both professional bodies are IFAC members.

Besides these national professional bodies, a significant role is played by the **ACCA** (Association of Chartered Certified Accountants). By entering the Romanian market in the early 1990s and by promoting a strong education curriculum, ACCA is regarded as providing a high level qualification. Very recently, two other international bodies, **ICAEW** and **CIMA** entered the Romanian market, but despite their international recognition, the local market is more familiarized with the ACCA qualification.

A significant role in the accounting profession is played by the **big accounting firms**, which contributed with knowledge and resources to facing the challenges of the accounting reforms, especially concerning IFRS application. While the professional bodies had and continue to have a close relationship with academia, there seems to be a certain gap between practice and academic research. However, recent improvements have been made, such as for example the KPMG Romania Professorship program started in 2011, and various collaborations regarding students' internships and training exist.

The accounting profession was negatively influenced by the communist inheritance, in terms of a low status and inadequate competencies for a market economy. There still is a shortage of skilled labor, and in terms of roles and competencies there seems to be a slow movement from bookkeeping towards consultant and business analyst. **The profession is emergent and continuously changing**, and clear correlations between job title, respon-

sibilities, required experience or training, remuneration, size of the entity cannot be established.

Accounting education and research

Accounting education

Accounting education is delivered in Romania in more than 35 universities, of which the most prestigious are the public ones. A Romanian Accounting Association was created in 1994, but it is not active and therefore the community of accounting educators and researchers is not well connected. We estimate that there are over 350 accounting academics affiliated with Romanian higher education institutions, working in accounting or finance departments.

The Bucharest Academy of Economic Studies (ASE) is the largest Romanian university providing education in economics, with around 26,000 students. ASE is also recognized as a leader in the accounting education and research, the World Bank considering that the accreditation of the Faculty of Accounting and Management Information Systems by the ACCA is an example to follow for other Romanian universities.

Academia

The **academic hierarchy** in Romania traditionally comprises five positions: junior assistant, assistant, lecturer, associate professor, and full professor. Promotion criteria are established by the Ministry of Education, Research, Youth and Sports, and the associate professor and professor positions are also validated by the Ministry. These criteria are also used by universities for internal evaluation, usually with very small differences. Academics must be evaluated at least once every five years against the criteria in use at that time for the position they occupy.

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For this internal evaluation, especially in the last years, the criteria used are a little bit easier than those issued by the Ministry (compensations can be made for some of the requirements). Faculty members have to fulfill both research and teaching criteria, because for the time being there is no separation between teaching and researching positions. Usually accounting academics remain and promote in the same university they graduated from (which is common across all the fields of education in our country).

For 10 or 15 years after the fall of communism in 1989, the role of accounting academics was especially to write books and prepare teaching materials in order to keep the pace with the rapid changes in the business environment and in the accounting regulations. The orientation was towards introducing new accounting techniques and ideas (such as the substance over form principle, IAS/IFRS, Activity-Based Costing, Balanced Scorecard etc.). In that period, evaluation criteria were based on the teaching activity and the number of books and papers (irrespective of the type of journal).

Only starting 2005 attention started to be paid to the **ranking of universities and journals**. A national journal ranking was proposed, including only Romanian journals and without making differences between domains. The criteria used for classification were quantitative and referred to the databases in which the journals were abstracted or indexed. The most prestigious journals are considered those listed ISI (Thomson Reuters Web of Knowledge).

In 2011 a new set of promotion criteria was established. In accordance with these criteria, Romanian academics are required to publish in ISI journals with a relative influence score greater than 0.25 (which is more restrictive than the journal's impact factor). Qualifying

accounting journals are, according to the list used in Romania, Abacus, Accounting Organizations and Society, Accounting Review, Auditing - A Journal of Practice & Theory, Contemporary Accounting Research, Journal of Accounting and Economics, Journal of Accounting Research, Journal of Business Finance and Accounting, and Review of Accounting Studies. To date, no accounting academic affiliated with a Romanian university published in one of these journals.

Timid developments in terms of international publications are made, and the efforts will eventually pay off but over a longer period of time. The drastic change in orientation from writing books and publishing in professional journals to getting published in international top journals demotivated most Romanian accounting academics, especially that various ways to fulfill these quantitative criteria can be found on the short run.

Research methodology became a part of the doctoral studies only for the last decade, and had a general character. **The changes in the promotion criteria** and the quantitative approach did not recompense the commitment of accounting academics to improve their research skills. For example, the evaluation system encouraged participation at conferences publishing conference proceedings, eventually with ISBN number (similar to the case of other countries in the region). This could be an explanation for the still reduced (although increasing) number of Romanian academics attending the annual congress of the European Accounting Association or other prestigious international accounting conferences worldwide. Also, the system did not require the publication of papers in accounting journals, and did not encourage increasing the international visibility within the field. As a consequence, to date there is a reduced number of papers published by Romania-based authors in international accounting journals.

Under these circumstances, most accounting publications are still mainly theoretical and descriptive, with empirical research starting to be developed over the last years. Besides the difficulties in gathering data for research (lack of databases with financial data, reluctance of practitioners to answer questions or to provide data), there is a pressure for quick publication and a quantitative approach in evaluating research (based on number of papers, not on research quality), which demotivates most researchers to engage in thorough research projects.

There is only one Romanian academic journal dedicated to the field of accounting ("Journal of Accounting and Management Information Systems", published by the ASE), but the current journal ranking system or evaluation criteria do not distinguish between academic or professional journals or between domains. Therefore, many publications of accounting academics occur in generalist journals or even in journals outside the economic domain. On the other hand, the changes in accounting and in the economic environment provide a lot of research opportunities. Little is known in the international literature about the case of Romania, and besides this need to produce research results with international visibility, the business environment might benefit from the results of more practice oriented research.

Opportunities and challenges for the future

The initiatives to improve the current system include a sustained effort of Romanian accounting academics over the last years to attract international scholars and to **create the conditions for improving the research skills of Romanian academics**.

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Internationally renowned accounting researchers regularly attend accounting conferences organized in Bucharest by the ASE (the International Conference on Accounting and Management Information Systems, organized annually, already at the 7th edition in 2012) and in Cluj-Napoca by the Faculty of Economics and Business Administration of the Babeş-Bolyai University of Cluj-Napoca (Accounting and Audit Convergence Convention, organized every other year).

A major support for the International Conference on Accounting and Management Information Systems is provided by the International Association for Accounting Education and Research (IAAER), ACCA, IFRS Foundation and KPMG, in terms of organizing or sponsoring IFRS teaching sessions and paper development workshops in conjunction with the last 4 editions of the conference.

Professor Donna Street (University of Dayton, former President of IAAER and currently its Director of Research and Educational Activities), with assistance from the ACCA, played the leading role in these events by launching a program to enhance the research and teaching skills of scholars in emerging economies, one of the centers chosen to implement this program being Bucharest. These efforts are presented in an ACCA's magazine as "**sowing the seeds**", with potential high long term benefits, also based on the perpetuation of the circle of knowledge and research.

Given the fact the academics' behavior is a direct result of evaluation criteria, a **major reform is needed**, with long term objectives and stable and fair criteria. Decisions in these areas are to be made at the university level, but also at the national level (Ministry of Education and other institutions managing the research funds). The current



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challenges involve the adjustment of promotion criteria into ones that would stimulate long-term performance, the development of internal evaluation criteria, the separation between teaching and research positions (with separate evaluation criteria) and the encouragement of increasing international visibility in the accounting domain, but also the relevance for accounting practice.

Further reading:

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