

■ European traditions in accounting

Accounting research in Finland: Times they are a changing

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Finnish accounting researchers have been participating very actively in EAA congresses over the course of the last three decades, particularly when one considers the relatively small national population. For example in some congresses as much as 20 % of the presentations in management accounting sessions were made by Finnish researchers. The congress has twice taken place in Finland: in Turku 1993 and in Tampere in 2009. Professor Reino Majala acted as a President of the EAA in 1993-1994 and Professor Pekka Pihlanto as President of the congress in 1993. Professor Salme Näsi chaired the congress in 2009. The work done by Professor Kari Lukka on EAA committees and as the editor of the EAR during 2000-2005 should also be mentioned in this European context. But what is the background of such an active presence of the Finnish accounting academics in EAA context? I shall be trying to answer that question in this article.

The history of accounting in the form of bookkeeping in Finland goes back to the 14th and 15th centuries, and the history of double-entry bookkeeping begins in the 17th century. From the middle of the 19th century accounting in Finland may be considered as a practice in the modern sense of accounting practices owing to a period of economic liberalism in Russia - for Finland was a Grand Duchy of Russia from 1809-1917 that led to an expansion of commercial and industrial activity in Finland too. References to the obligation to keep books can first be found in acts passed in the 1860s. Our second official language is Swedish since prior to 1809 Finland was part of Sweden with a consequential strong

Swedish influence on Finnish culture generally.

After Finland became independent in 1917 accounting legislation developed rapidly. The first Accounting Act (The Bookkeeping Obligation Act) was passed in 1925 and the Financial Statements Publication Act in 1928. At those times, accounting practice was still relatively undeveloped, so the framework for financial accounting had to be established mainly through legislation. The static balance equation theory was a fundamental idea in accounting, and the balance sheet was seen as a primary financial statement. These ideas were adopted mainly from German theories. The German influence is also still observable, for example in the Finnish education system.

A new Accounting Act was passed in 1945. The need for more regulated financial accounting was based on increased control by the government, and the war economy. Financial statements were now drawn up according to a uniform model. The act was still mainly based on the static balance equation theory and asset calculation. Profit measurement was regarded, however, as the main function, a fact which indicates that some dynamic influence was now involved. Developing businesses also started to use managerial accounting practices such as costing, capital budgeting and financial planning, which in turn led to increasing teaching and researching activities around these topics.

A dynamic "expenditure-revenue theory" of accounting was outlined and demonstrated in Finland in the 1940s and the 1950s by Professor Martti Saario. Both the 1968 Company Income Tax Law and the 1973 Accounting Act were based on the expenditure-revenue theory of Professor Saario. This theory, which emphasized the role of income statement and profit calculation, became a basic explanatory theory in the 1950s and it was gen-

erally accepted by the accounting profession in the 1960s as the only valid theory. It was a unique in international accounting history that prescriptive rules could be deduced from a single theory that had been developed by a single professor - a situation scarcely imaginable these days.

While the laws allowed wide income smoothing and flexible taxation in the spirit of accounting theory, it also suited the purposes of the government to control economic development and industrialization and provided a genuine win-win situation between firms and government, though it was difficult for shareholders to ascertain the financial position and performance of the companies. This was considered not to be a major problem, however, in the weak and narrow capital markets in Finland of those times.

Economic development and increasing internationalization lead to the Accounting Act Reform of 1993 and the new Accounting Act of 1997, which were aimed at unifying regulations for financial statements with those of the 4th and the 7th Directives of the European Community and to make the financial statements internationally comparable. The last step of harmonization with IFRS was taken in the law reform of 2005. The expenditure-revenue theory remained as the theoretical base until the changes of 1993, but since that it has gradually been removed from the way of IFRS as there has been an increasing need by shareholders for transparency in international capital markets.

Early Finnish accounting research was greatly influenced, like the first Accounting Act, by German accounting traditions. In fact the title of the first Finnish accounting dissertation of Ilmari Kovero (1911) was "Die Bewertung der Vermögensgegenstände in den Jahresbilanzen der privaten Unternehmungen".

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Actually, the history of accounting research in those pioneering years before the Second World War was much of the business and management studies, because most of the dissertations and research in general were in the area of accounting. 1911 was also another milestone for Finnish accounting as an academic discipline in the sense that Helsinki School of Economics (HSE, nowadays part of the Aalto University) was founded in the same year as the first Finnish speaking university level business school in Finland. For the Swedish speaking students in Finland the higher education was started already in 1909, when the Swedish School of Economics and Business Administration (known as Hanken) was founded (university status awarded 1927). Currently the master level education in accounting is offered in 11 universities in Finland, and there are no tuition fees at any levels of higher education.

Up to the 1960s accounting research in Finland was mainly theoretical and conceptual by nature. International publication activity was very rare. Dissertations were typically the highlight of research activity and their topics related to different aspects and items of the balance sheet, income statements and valuation and profit measurement. In management accounting the focus was on major issues of capital budgeting and costing. During the 1960s, the statistical explanatory research and decision making models, influenced by models in the United States, took on an increasingly large role in Finnish accounting research. This mainstream approach has maintained its leading position in financial accounting research right up to today, though not exclusively, as a few dissertations and journal articles do now apply other methodologies.

Changing legislation and international harmonization have provided plenty of research opportunities in the world of Finnish financial accounting. Moreover, weak financial markets and their rapid liberalization, development and

internationalization since the 1980s have also provided excellent research laboratories for scholars focused on financial accounting and the financial markets in the interface between accounting and finance. There have been ambitious and successful research groups focusing on these aspects in HSE, the Swedish School of Economics and in the Universities of Vaasa and Oulu, and since the 1990s they have published plenty of high level journal articles on a variety of topics on financial accounting and finance. There is more than 30 dissertations completed in financial accounting during the twenty year period from 1990 to 2009, though it is not easy to define the exact number because the distinction between the categorization of financial accounting and finance is often somewhat arbitrary regarding the topics, between university departments and faculties, and in the publication series.

Many contemporary topics, like accounting history, gender issues and social and environmental accounting, have been gained in popularity over the course of the last years and they have generated a few dissertations. In these studies, a broader methodology is typically employed, including discourse analysis, archival studies, and case studies (firms in Finland are familiar with collaboration for the purposes of research, and usually it is fairly easy to obtain access to companies). Moreover, with the growing importance of the auditing profession during the last two decades and the establishment in the country of a number of professorial chairs in auditing, research into auditing has been steadily increasing, and there were 14 dissertations on auditing from 1990 to 2009.

In management accounting research, the early studies in the 1940s and 1950s focused mainly on basic issues like costing. In the 1980s however the behavioral and organizational aspects of management accounting gained attention. The popularity of management accounting research in Finland

exploded in the early 1990s, when relevance lost debate and activity-based costing, non-financial measures, balanced scorecard, strategic management accounting and new roles of management accountants etc. became part of research agenda. Because it has been a very popular topic it too has produced plenty of dissertations and internationally recognized journal papers in high level journals such as Accounting, Organizations and Society (AOS), Management Accounting Research (MAR) and European Accounting Review (EAR) to mention few. Management accounting research has been particularly popular in the HSE, Turku School of Economics, and the Universities of Jyväskylä and Tampere. It may be said, in spite of the risk of sounding biased, that an important cornerstone for Finnish management accounting research was established when AOS was founded. This journal has provided both inspiration and insights into social and organizational context of accounting, which can be observed also in Finland since the 1980s. Furthermore, the curious and open-minded spirit of its founder and long time editor, Anthony Hopwood has had remarkable effect on Finnish management accounting research. Moreover, many Finnish authors have been both influenced by and contributed to the two other main source of publications, MAR and EAR during last couple of decades.

Later on the research agenda has shifted from studying management accounting innovations and their implementation to more theoretical questions related to accounting change and accounting practices. Interpretative theories, like actor-network theory, structuration theory and particularly different versions of institutional theory, have gained in popularity. Currently, topics like ERP-systems, shared service centers, management control system packages and control of new organizational forms and growth firms are under intensive studying.

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Accounting research in Finland (cont'd)

Interpretative, ethnographic and grounded theory based case and field study approaches have been popular in Finland and we may say that they form the heart of Finnish management accounting research. Several studies have successfully employed also survey strategy and applied contingency theory too. According to recent study of Kihn and Näsi (2010) there were 43 dissertations completed during 1990-2009 in management accounting in Finland. 47 % of them used interpretative, 20 % quantitative, 13 % constructive and 20 % mixed methodologies.

Currently there is a spirit of methodological pluralism in Finland. There has been also a tradition of very lively methodological discussion, producing several journal articles on this topic and, furthermore, one 'Finnish speciality'; 'four Finnish research approaches ('nomothetical' (i.e. mainstream statistical), 'decision analytical', 'conceptual' and 'action oriented approach' (close to interpretative approach)) defined by Neilimo and Näsi in 1980. Methodologically we can separate three or four major turning points in the Finnish accounting research tradition, at an average interval of about 15 years. The first major turning point was the abovementioned move from conceptual studies to a quantitative 'mainstream' approach in the 1960s, which remained as the leading practice in financial accounting. The second was the emergence of the interpretative and qualitative approach in the 1980s, particularly in management accounting research, in which it has maintained its strong position ever since. The third was the introduction of the constructive research approach, the interventionist case study methodology introduced by Kasanen, Lukka and Siitonen (1993), which has been very popular in masters theses, applied in a few PhD theses and in some international articles too. Fourthly, and more tentatively, as its potential is not yet fully tested, I may mention the recent methodological/theoretical opening made by Malmi and Granlund (2009), in which they proposed if man-

agement accounting theory as such should be developed, and if so in which ways, instead of using only theories developed in other disciplines.

The number of dissertations (almost one hundred in total during the two last decades) has increased gradually due to the efforts made in universities, to improved possibilities to research funding, to pressure from the ministry of education and university executives, but also due to co-operation on a national scale, particularly in the form of Graduate School of Finance and Financial Accounting (GSFFA, founded in 1994) and the Graduate School of Accounting (GSA, founded in 2000). Moreover, the increasing international co-operation between the universities, in EIASM and EAA and in other international associations has meant a lot for the internationalization of Finnish PhD education. Traditionally, it has taken relatively long time, about eight years, to complete PhD studies in Finland. Earlier, up to the 1990s, it was obligatory to complete licentiate degree between master and doctoral degrees. It is still possible to do, but more and more PhD candidates complete their doctoral degree without the licentiate stage. Typically too in Finland PhD students are usually faculty staff, with both teaching responsibilities and administrative work to perform as well. The career track has typically included posts ranging from assistant (or researcher) through to assistant professor, associate professor and full professor. Currently, however the Finnish career development are under change process, and it is moving towards tenure track system in some universities.

The national source of academic publication has traditionally been the Finnish Journal of Business Economics, published since 1952. It is a double blind reviewed general journal for all business studies that is published quarterly, and its current editor is Professor Teemu Malmi. Most of the articles are published in English.

In Finland, there are only a few important professional accounting associations. CPA association (KHT-yhdistys) is an association of auditors certified by the Central Chamber of Commerce. CPA was founded in 1925, it is a member of IFAC and FEE and it has about 770 members. Further there are the HTM-auditors association, which is an association of auditors authorized by regional chambers of commerce (800 members, founded in 1951), the Association of Finnish (authorized) Accounting Firms (784 member firms) and the Institute for Internal Auditors (founded in the 1950s, 650 members), but management accountants do not have their own association, nor is there any official certification for management accountants as there is in some other countries.

The dominance of leading international journals and the increasing importance of university rankings will probably affect the methodological choices and focus areas of research in Finnish accounting academia too. Let us hope that it will not lead to narrower possibilities, either in research questions or in methodologies. Hopefully we may retain something of our Finnish originality, and the many opportunities there have been for rich accounting research will remain, while at the same time we continue to be able to further improve the quality of our research.

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