

ACCOUNTING CHANGE IN ROMANIA - A HISTORICAL ANALYSIS

Cătălin Nicolae Albu
Bucharest Academy of Economic Studies, Romania
Faculty of Accounting and Management Information Systems
6 Piața Romană, sector 1, București, 010374
Tel: +40 21 319 1900/365, Email: catalin.albu@cig.ase.ro

Nadia Albu
Bucharest Academy of Economic Studies, Romania
Faculty of Accounting and Management Information Systems
6 Piața Romană, sector 1, București, 010374
Tel: +40 21 319 1900/365, Email: nadia.albu@cig.ase.ro

David Alexander
University of Birmingham
Birmingham Business School
Edgbaston, Birmingham, B15 2TT, United Kingdom
Tel: +44 121 414 8027/6530, Email: D.J.A.Alexander@bham.ac.uk

11/11/2010

Version for presentation to 16èmes Journées d'Histoire de la
Comptabilité et du Management
23-25 March 2011, Nantes

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„Trecutul este un condensator al viitorului, prezentul o limită instantanee între trecut și viitor, iar viitorul o continuă realizare mai puțin sau mai mult corespunzătoare seriilor cauzale precedente. Legătura strânsă între aceste elemente temporare trebuie deci stabilită urmărită cu mare atenție. În acest chip ne vom putea mai bine da seama de situația actuală vom putea desluși cu mai multă ușurință, faptele ce se vor petrece în viitor
(Romacanu, cited in Demetrescu, 1947: 5)

Abstract

This paper takes the history of accounting in Romania and analyses the processes and causes of change. Our analytical model for investigating the change process is based on that proposed in Alexander and Servalli (2010), which argues that accounting is subjective at both philosophical and policy levels, and mutually interactive with the environment within which it operates. Two major forces are investigated in that paper, namely Social/Universal Darwinism and the inherently intersubjectively constructed internal reality nature of the accounting function. Romania has had more than its fair share of contextual and accounting changes over the last couple of centuries. These changes, some gradual but some sudden and drastic, are explored in detail, and are analysed through the lens of the Alexander and Servalli model. Their thinking informs and illuminates the history of accounting regulatory change in Romania, which in turn provides a case study of their arguments.

Key words: accounting change, Darwin, internal reality, Romania

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Résumé

Cet article examine l'histoire du développement de la comptabilité roumaine, et analyse les processus et les raisons de ces changements. Le modèle analytique par lequel nous étudions ce processus de changement est basé sur celui d'Alexander et Servalli (2010). Ce modèle, qui propose que la comptabilité est subjective à la fois sur le plan philosophique ainsi que sur le plan de l'établissement des normes, montre qu'elle interagit d'une manière mutuelle avec l'environnement dans lequel elle fonctionne. Deux paramètres essentiels sont analysés dans leur article, le Darwinisme Social/Universel, et la nature intrinsèquement intersubjectivement construite de la réalité interne de la fonction comptable. L'environnement et le système comptable de la Roumanie ont subi des nombreux changements durant les deux derniers siècles. Ces changements, parfois progressifs mais parfois soudains et radicaux, sont étudiés en détail et analysés à travers le modèle d'Alexander et Servalli. Leur raisonnement est informatif et apporte un éclairage sur le changement de la normalisation comptable en Roumanie, qui en revanche offre une étude de cas pour leurs arguments.

Mots clés : changement comptable, Darwin, réalité interne, la Roumanie

1. INTRODUCTION

This paper takes the history of accounting in Romania and analyses the processes and causes of change. Our analytical model for investigating the change process is based on that proposed in Alexander and Servalli (2010), which argues that accounting is subjective at both philosophical and policy levels, and mutually interactive with the environment within which it operates. It follows that both understanding the past and the present, and predicting the future require a wide-ranging contextual analysis. Alexander and Servalli suggest possible relevance in considering accounting change (or non-change) of both path dependency (the idea that what you do today is influenced by what made logical sense yesterday), and the concept of punctuated equilibria (the idea that a major external shock causes a sudden change - a departure to a new path).

Various aspects of the accounting change process have been investigated in literature: the preconditions of change, the actual processes of change, as well as the consequences of change (see Andon *et al.*, 2007, for a comprehensive review of relevant literature). These authors refer to this literature as a “linear conception of accounting change”, viewing change as organizations move from a point A to a point B in several stages (op. cit., p. 277)ⁱ. Several models have been proposed in literature to investigate the complex process of accounting change, since Hopwood’s 1987 call for investigation (Burns and Scapens, 2000; Harrison and McKinnon, 1986). Unlike these models, the Alexander and Servalli (2010) model draws on Darwinian literature to adjust the concept of survival to accounting constructions, explicitly placing the focus on the socially constructed human influence on both the particular species (accounting) *and* its environment, as well as on

the complex and difficult interrelationships between these forces. Also, unlike for example the model proposed by Harrison and McKinnon (1986), which only recognizes *one* environment (national culture) (italics in the original text; op.cit, p.239), Alexander and Servalli propose an n-dimensional model particularized for each entity/accounting situation (in their own words).

Romania is a particularly interesting case study of the process of accounting change as conceptualized in Alexander and Servalli (2010). There have been a number of very fundamental changes in a relatively short space of time. The five countriesⁱⁱ which came together to form Romania in 1918 had their own individual histories under the influence of inputs from various authors and countries, including the Germanic Austro-Hungarian, Italian *Economia aziendale*, and French traditions. Between 1900 and World War II Romanian writers and accounting professionals began to develop an indigenous tradition, but this of course was all swept aside by the communist takeover and another 'major external shock' in the terms that Alexander and Servalli might use. Since 1989, with the twin, but not happily consistent, desires to be seen to adopt (definitely) and to really adopt (debatably), European Union and International Accounting Standards requirements, the situation has changed completely again. Or has it?

The main objective of this study is to explore the Romanian accounting histories in the context of the model as proposed by Alexander and Servalli (2010), in order to critically examine Romanian attitudes and perceptions today and suggest a number of rational predictions of likely future developments in an EU/IFRS environment, in a world where

accounting seeks to serve organisations of vastly different sizes, with vastly different user needs, in vastly different attitudinal contexts. We proceed as follows. Section 2 outlines our analytical model. Section 3 (divided into stages) presents the histories of the various key periods and relates them to causes and contexts in each case. In section 4 we further discuss the present situation in more detail, and suggest implications for likely future successes and failures. Finally we briefly suggest ideas for future research in other contexts.

We intend to investigate several research questions, *inter alia*. What is the nature of the process of accounting change in Romania? What are the main factors which have affected/currently affect/will affect this process? Is there anything to be learned based on the case of Romania for the processes of implementation of IFRSs, and/or evolution of the European dimension?

From a methodological point of view, the Romanian authors of the study have first conducted a thorough study of relevant (mainly Romanian) literature available to them (textual analysis). Accounting (historical) papers (especially of Romanian authors) have been studied in order to become familiarized with the process of accounting change through time and the way accounting was perceived, taught and learned in various phases of the reform. Old (beginning of the 20th century, i.e. 1908 for the oldest) and newer Romanian accounting books have been studied to get an understanding of accounting literature in different periods of time, and of the development of an accounting literature (and thought) in Romania. Several interviews conducted for another paper the team has

authored have been used, to the extent they were helpful in order to better ascertain the current state of affairs. Finally, we have applied the Alexander and Servalli framework to the case of Romania (see Fig. 1 at the end, taken from Alexander and Servalli, 2010), in the context of findings as outlined before, in an attempt to highlight generalisable propositions to be tested (confirmed or rejected) by future researchersⁱⁱⁱ. This framework seems potentially rich as the basis for considering the relationship between accounting (non-)change and changing circumstances and influences. Its ideas are applied in this paper to the unusually complicated and interesting case of Romania.

2. ANALYTICAL FRAMEWORK

The lens through which we look at the process of accounting change over time in Romania is taken from Alexander and Servalli (2010). The Alexander and Servalli (2010) paper investigates and integrates two major relevant forces in its exploration of accounting regulatory change. The first is Social/Universal Darwinism, where natural/scientific Darwinism is applied, with necessary adaption, in the social sphere. The second is the inherently intersubjectively constructed internal reality nature of the accounting function. They generally hold that from the viewpoint of a specific regulatory system there is change in its local purposes, and there are major external influences from regional and global regulatory bodies. The survival and development of any particular regulatory system is dependent on its suitability for the functions which it is required to provide. They propose that the logic of Darwinian evolution provides significant insights into consideration of this process of development change and hopefully survival (this being Social (Universal) Darwinism, not purely scientific (natural) Darwinism). It

follows that an understanding of the nature and development of a regulatory system requires recognition of the intersubjectively constructed social nature of the accounting function. Similarly, the economic/political/cultural/linguistic environment in which the regulatory system is operating is created by intersubjective social agreement across a particular community. At the most general level, a regulatory system needs to be compatible with, and meet the everchanging needs of, its environment.

The two authors hold that what distinguishes the application of Darwinism in the social sciences from that in the pure sciences is that social influence and social construction are affecting both the organism/organization and the environment/context in which the organization has to survive. In summary therefore, their Darwin application links our particular species (accounting) with a consideration of its suitability for, and its survival within, its environment (economic/political/cultural), noting that both are constantly mutating under human influence. In particular, in accounting regulation change, the retention process is linked to the manifestation of advantageous variations that conduce to a selection guided by financial reporting aims. Considering a typical situation of variation in the accounting regulation field, such as the introduction of new accounting standards, it involves an environmental test, a selection process, that can conduce (or not) to a profitable solution able to locally survive (principle of inheritance).

Finally, the two authors argue that

- Accounting, like most things that matter, is socially constructed; if 'generally accepted', it is accepted by inter-subjective construction, an iterative process

- within a community, being an example of internal reality, and therefore by definition unstable over time and place;
- Language, and therefore communication and concept transfer, exhibit similar characteristics;
 - Attitude, culture, thought and practice are not free of influences from the past (path dependency);
 - In the context of a specific community, external 'shocks' may disturb the implications of the natural development of the community's internal reality (punctuated equilibrium).

Given the need to link together the key factors individualised in the analysis within this paper, the two authors have shown that the Darwinian evolution is a necessary condition for explaining the process of change, but fails to give a complete picture. What is fundamentally missing is the implication of their explicit statement that the link between our particular species (accounting) and its environment (economic/political/cultural) must take account of socially constructed human influence on *both* elements. Both aspects are changing, and therefore the changes in the interrelationships are very complex.

Fundamental to their argument is that for any entity/accounting situation there will be a number of environmental influences, referred to by Alexander and Servalli as dimensions, each with their own 'community' characteristics which are internally coherent and 'generally accepted by inter-subjective construction' within that particular community only. In principle these different coherences are likely to conflict. This

creates a theoretical n-dimensional model, which they illustrate with 5 dimensions using an EU focus. They posit 5 contexts, juxtapositions or dimensions as follows:

- a single national (country) context;
- a regional (EU) context;
- a global (IASB) context;
- a size of entity context (e.g. SME or listed group);
- a user needs context (e.g. investment decision-making or prudential regulation or tax calculation).

In the general case, as a mathematical necessity, all 5 dimensions have an intersection with each of the other dimensions, although any particular intersection could be at zero point in relation to one or more dimensions (this would be the case, for example, regarding the EU community dimension where we are considering a reporting entity in a country not a member of the EU or the European Economic Area).

It follows that any point (using the word in its technical sense) in this 5-dimensional space will represent a particular entity, and it will have a particular position and value within each of the 5 dimensions (at the same time). Its position in dimension 1 will give a certain relationship between organism and environment and, within that environment, certain mutations within the financial reporting process are more likely to engender survival than other mutations will within that environment. Similarly its position in dimension 2 will also give a certain relationship between the organism and that environment, and, within that 2nd environment, certain mutations within the financial

reporting process are more likely to engender survival than other mutations will. Their whole argument, in essence, is that in the general case the optimum mutations related to dimension 1 will be different from the optimum mutations related to dimension 2. And so *ad infinitum*. The ultimate outcome in any particular case is not foreseeable, until the relative strength of the different forces within each of the five dimensions has been determined.

Because of these multifaceted changes on all aspects of the total situation, the direction of the optimal evolution to maximise the likelihood of survival becomes complex and unpredictable. Nevertheless an understanding of the nature of the forces at work, and of the processes of these interrelationships between those forces, is an essential element in either researching issues involved, or in searching to improve practical outcomes, and it is this which their paper seeks to provide. In the next section we describe the many developments in accounting and reporting in Romania over nearly two centuries, and the changes, sometimes drastic, in the context and environment within which the accounting 'organism' has had to operate, mutate and survive.

3. THE ROMANIAN CASE

3.1. PRE-COMMUNIST ACCOUNTING (1837-1950)

Because of historical conditions, capitalism developed later in Romania than in western countries. Romanian territories were placed at the junction of Great Powers (such as the Ottoman, the Habsburg and the Tsarist Empires), and their position and resources tempted all of them. The struggle for independence, the battles and conflicts resulted in a

very late economic development. The commerce was negatively affected by the Ottoman monopoly (beginning with the 16th century), which delayed modernization of Romanian agriculture and manufacturing facilities. In this context, accounting was characterized by a late development as compared to western countries. Accounting practices and actions slowly evolved following the economic context of that period, being influenced by the developments of commerce, industry, credit institutions, but also by religion, politics and tradition.

Double-entry accounting manifested certainly in the 17th century, in factories in Sibiu, Braşov and Bucharest (Demetrescu *et al.*, 1979, cited in Ionaşcu, 1997: 176). Also, Radu (1995: 30) shows that forms of accounting were used in the Romanian territories long before, considering the registers and accounting books found for several very old estates of the time, but a significant development was only visible starting the second half of the 18th century, when commerce began developing (Radu, 1995: 30). In this context, Rusu *et al.* (1991: 50-51) show that the advantage of the Romanian territories resides in their position (“a bridge between Central Europe and the Far East”), which permitted a transit commerce with positive influences. The authors believe that given the presence of Venetian or Genovese merchants (starting 1200) on Romanian territories, there can be no doubt that Romanians learned accounting and bookkeeping principles from them. Also, Calu (2005: 58) provides some evidence that double-entry was used in Romanian territories starting in the 18th century.

Further accounting developments are associated with the development of the economic and politic environment of that time. After a long period of Ottoman domination, the international context changed favourably for the Romanian territories and the revolution of Tudor Vladimirescu of 1821 is the first step for an economic development (Mureşan, 1995 cited in Dobroţeanu, 2005: 282). Demetrescu^{iv} (1947: 7) explains:

“After 1800, the Romanian commerce, in which forms and methods of western commerce were introduced, began its development; it established stronger relationships with various other countries, and the need for bookkeeping, and thus of accounting records, emerged”.

After the Adrianople Peace in 1829, the principalities of Wallachia (ro. Țara Românească) and Moldavia (ro. Moldova) regained their independence from the Ottoman empire, and several laws were promulgated in order to facilitate the economic development. Commerce flourished as cereals began to be extensively exported to western countries (Demetrescu, 1972: 289). Transylvania is the first Romanian territory which developed incipient forms of capitalism^v mainly due to the influence of the Habsburg occupation (Radu, 1995).

Organic laws (ro. Regulamente organice) were adopted in 1831 in Wallachia and in 1832 in Moldavia, and fulfilled the function of a constitution (Ionaşcu, 1997: 176). They also represent the first piece of accounting legislation because they state the compulsoriness of accounting bookkeeping in public accounting and represent an important landmark in the development of Romanian accounting (Calu, 2005: 57; Ionaşcu, 1997: 176; Dobroţeanu, 2005: 283). Of course, this resulted in the development of accounting writings and accounting education throughout the Romanian territories. The first accounting books in

Romanian were written in the late 1830s, while it is certain that accounting courses (based on double-entry principles) were delivered in 1838 in Iași and Brăila (Mureșan, 1995 cited in Dobroțeanu, 2005: 284; Radu, 1995: 17). Demetrescu^{vi} (1972: 285) refers to this primal period as follows:

“To the modest beginnings of the accounting application correspond modest beginnings of the Romanian accounting literature, manifested through translations of foreign accounting books (French, German and Italian). Accordingly, the first accounting works published at the beginning of the 19th century were translations from German and French, to which some religious advices were added, according to the customs of that time”.

The first accounting book in Romanian is “Pravila comerțială/komerțială” by Emanoil Ioan Nichifor (or Nikifor), printed at Brașov (Transylvania) in 1837. This work contains accounting, commerce and law issues, written in Cyrillic script. It is actually a translation from German, because the author intended to help Romanians get knowledge of what had been written abroad (Ionașcu, 1997: 176); it was intended to be used as a textbook by the students of the Commercial School in Brașov. Nichifor has in this context the merit to have set the basis of an accounting terminology^{vii} in Romanian and of some ethics principles (Radu, 1995: 31). Allowing for the difference in context, Rusu *et al.* (1991: 52) compare the contribution of Nichifor for Romania with that of Luca Pacioli at the international level, as they consider fundamental Nichifor’s work of disseminating in Romanian a first treatise of accounting and commerce, using mathematics and economic philosophy, religious and laic literature in order to influence merchants and accountants. “This is the book with which begins the history of Romanian accounting literature” (Demetrescu, 1947: 10).

In Wallachia accounting literature begins with the book authored by Vasile Urzescu in 1840 in Bucharest (Demetrescu, 1972: 298). Another author is Dimitrie Iarcu (Jarcu) translating in 1844 and 1845 the two-volume book of a French author (i.e., J. Jaclot); also considering the other accounting books he wrote, he is considered to be the first to contribute to the spread of accounting in Wallachia, describing the technique of double-entry accounting (Demetrescu, 1972: 298).

Between 1850 and 1900, two historical events supported an accelerated economic development: the unification of Romanian territories in 1859 (Moldavia and Wallachia), and gaining the State Independence in 1877. Several laws were adopted in order to encourage a common and improved administration of the Romanian territories. Agriculture was modernized, industry began a significant development^{viii}, while transportation routes were built between Moldavia and Wallachia. In 1868 the monetary system and the Romanian currency were created, and in 1880 the National Bank of Romania was founded. A flourishing industry and credit development^{ix} characterized this period. The economist D.P. Marțian stated in 1860 that “we need 2-3 economic schools and a commercial academy” (in Radu, 1995: 12). In line with this need, commerce schools are created, where students learned for 5 years accounting, economics, and finance. In 1887, the Code of Commerce imposed the use of accounting books, so competencies in accounting were more and more required.

After a period of acknowledging and adapting foreign sources, the role of Romanian authors in adapting the accounting knowledge to the specificities of the country, and in bringing original contributions, increased. The first original Romanian accounting book is considered to be “Contabilitatea în partidă dublă” (en. Double-entry accounting) authored by Theodor Ștefănescu (Ionașcu, 1997; CECCAR, 2006), published in 1873 in Bucharest, and printed in 7 editions. The author presents “with high competence” “foreign and personal theories” (Demetrescu, 1972: 285). He was inspired by the works of L. Toussaint (CECCAR, 2006: 17). His merits are to combine theoretical with mainly practical aspects of accounting and to discuss accounting as art and as science (Calu, 2005: 61). In the 1908 edition, he notes that: “In Romania, even if the necessity of accounting was recognized after 1854, it was used in isolation and following various methods, for two reasons: the lack of specialized schools and the lack of appreciation for this science by those called to administrate private or public houses” (Ștefănescu, 1908: 5)^x. He is also aware of, and highly prizes the distinction between, an accountant and a bookkeeper: “The title of accountant is totally antonymous to that of bookkeeper. In order to be an accountant in the sense of competence, economic, financial and legal competencies are required.” (Ștefănescu, 1908: 11)^{xi}.

Constantin Petrescu (a former student of Ștefănescu's) is influenced by the Italian accounting literature and introduces the concept of “azienda” in the Romanian literature, through his 1901 book (Drăgănescu-Brateș, 1941: 22). He also puts accounting in relationship with the management function of an entity (Calu, 2005: 62), but criticizes some of the arguments of Gitti and Massa, developing solid original arguments (Rusu *et*

al., 1991: 238). In the same year, I.C. Panțu deals in his book with the issue of preparers and users, showing that the majority of those interested in accounting are concerned with form and not with substance (Rusu *et al.*, 1991: 236).

As regards this period, Rusu *et al.* (1991: 235) noticed: “The work of Th. Ștefănescu and C. Petrescu is under the influence of the French and Italian accounting literature. Also, the works of I.C. Panțu and I. Lepădatu are influenced by the German thinking and literature.”; yet, “...valuable thinking also develops.” (p. 239)

After 1900, the Romanian economy is in continuous development, reaching a maximum between 1933 and 1939 (Dobroțeanu, 2005: 288), enhanced by the unification of Transylvania with the other two Romanian territories in 1918. The increasing role of accounting, the prior knowledge accumulation and the economic development advanced accounting research and practice. In accounting research, this is the period 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) was established in Bucharest, while the Body of Chartered Certified accountants and Authorized accountants of Romania (ro. Corpul Contabililor Autorizați și Experți) was founded in 1921^{xii}.

Rusu *et al.* (1991: 235)^{xiii} show that “Romanian researchers noticed that in other countries accounting as a scientific essence has a foundation, a system of thinking and an appropriate vocabulary. The Romanian accounting literature progressed astonishingly fast.” Two major issues were discussed during that period: the role and the scientific character of accounting, and accounting regulation. These discussions may be placed, as regards the topic and arguments, within the international context of that time (Ionașcu, 1997: 179).

It seems Romanian authors and the Romanian accountancy profession at large were highly esteemed internationally during those times (CECCAR, 2006). For example, at the 1926 International accounting congress the organization of the Romanian professional body was praised by participants^{xiv}. Bucharest even hosted the 1931 edition of the same congress (Lemarchand *et al.*, 2008). Also, requests were made in 1937 by the Herwood & Herwood Publishing House to Petru Drăgănescu-Brateș (Drăgănescu-Brateș, 1941: 50) to send references of Romanian papers published before 1900 (unfortunately, as Drăgănescu-Brateș recognizes himself, he never sent out those data, thus Romania is absent from the actual catalogue published in 1938).

In 1928, an original book authored by Spiridon Iacobescu and Alexandru Sorescu was published, which for the first time in the Romanian literature addressed the issue of developing a juridical-economical theory in order to justify the scientific character of accounting (Demetrescu, 1972: 321). Given their contribution, Demetrescu (1972: 286) considers that “this book is an expression of Romanian accounting thinking, and its

authors may be considered the founders of a Romanian accounting school, the patrimonialist^{xv} school”.

Ion Evian (in 1940) criticizes the intrusion of legal matters in accounting, showing that the theory of Iacobescu and Sorescu is “eminently juridical and to a small extent economical” (Evian, 1940: 62 cited in Ionașcu, 1997: 181)^{xvi} and he advances the economic theory of accounting. In his book entitled *Teoriile conturilor* [en. Theories of accounts] (1940), Evian is the first Romanian author to show that an accounting theory is needed in order to consider accounting as science (Ionașcu, 1997: 181) and refutes the scientific nature of accounting, being inspired by the works of the German author Nicklisch. He considers accounting as a technique in the business economic field. In response to the criticisms of Evian, Iacobescu publishes in 1942 “*Probleme de filosofie contabilă*” [en. Issues in accounting philosophy], which may be considered “the first Romanian book treating accounting epistemology” (Ionașcu, 1997: 183). Unlike Evian, Iacobescu considers that ‘accounting is only recording administrative exchanges, with patrimonial influence. It does not account for economical exchanges, but patrimonial exchanges’ (Iacobescu, 1942, cited in Ionașcu, 1997: 184). Also, Iacobescu considers accounting as a “science with applications and art” (Ionașcu, 1997: 185).

The dispute between the economical and juridical views on accounting and its scientific statute characterizes the 1940s. Other authors advance arguments for one theory or the other. For example, based on the divergences between Iacobescu and Evian, Voinea (1944) abandons the patrimony as the object of accounting and considers accounting an

independent discipline (Rusu *et al.*, 1991: 247). He publishes in 1947 *Tratat de contabilitate generală* [en. *Treatise of General Accounting*] which is, “given its elegant and academic style, the systematization of the chapters and its original contributions in the first place, a monument of Romanian thinking”^{xvii} (Rusu *et al.*, 1991: 257).

The second issue debated in the Romanian accounting literature of that time, i.e. the regulation of accounting, also demonstrates that Romanian authors were well aware of the advances of this domain in other countries. A law issued in 1927 demanded state-owned entities (and later in 1934, banks also) to prepare balance sheets and profit and loss statements based on an imposed layout. Accounting theory influenced the way of regulation (Ionaşcu, 1997: 190). Iacobescu insisted on such a design of the Chart of Accounts that it could then be adjusted by branches of industry into one suitable for their own purposes; no interference was intended in companies' cost accounting; the layout of the balance sheet and of the profit and loss statement was to be personalized by branch of industry. Evian intended to design a layout of the financial statements common for all industries, inspired by the plan of Schmalenbach; in his view, management accounts were also to be included here (Ionaşcu, 1997: 180-191). These discussions took place within the Commission for accounting regulation established within the Ministry of the Coordination in 1941. We may notice that even then accounting regulation was made by the State, but with a strong orientation towards the chart of accounts (as developed by Schmalenbach).

Until 1950, the Romanian economy knew an important development, but with some imperfections such as corruption, external influences, the need for economic reforms and laws. The accounting profession had a short history and the accounting regulation was a plan never finalized under the intended conditions. Accounting in this period is characterized by significant developments, from adaptation of foreign practices to debating accounting's role and nature. Dobroțeanu (2005: 289) shows that:

“the development of accounting depended, to a large extent, upon the economic development ... as the capitalist society developed and matured, we have witnessed an explosion of accounting research, which culminated during the 1930s and 1940s, a period of full economic development”.

Even if some authors (Ionașcu, 1997; Calu, 2005; Dobroțeanu, 2005) distinguish between a period of adaptation of the best international practices (prior to 1900) and a period of maturation of the Romanian accounting thought or the time of controversies (after 1900), we consider that this evolution is based on internal necessities and development, is characterized by collective consensus and is the result of the continuous changes in the environment, without external shocks or intrusions.

3.2. COMMUNIST ACCOUNTING: 1950 - 1990

After the Second World War, Romania entered under Soviet influence, which generated the switch to a planned and centralized economy. Communism was for Romania a major shock that caused the change of accounting actions. Dobroțeanu (2005: 289) notices that “The period 1950-1990 interrupted a fully emergent tradition, characterized by a

tendency of internationalization of accounting thought within the Romanian accounting school.”

The theoretical and methodological basis was the “Soviet experience” and Soviet books were translated into Romanian (Ionașcu, 1997: 191). Based on these books on “Accounting evidence” (in the sense of bookkeeping), the term accounting was replaced by “accounting evidence” (ro. Evidență contabilă) between 1950 and 1970. Also, as the Soviets used the term “mijloace fixe” (literally ‘fixed means’) instead of “fixed assets”, this substitution also began to be made in Romania (Calu, 2005: 159). Also, the erroneous term of “price of cost” (as in ‘full cost’) (ro. Preț de cost) was used for inventory valuation.

The Nationalization of June 11 1948 set the foundations for the implementation of the first chart of accounts common for all industries, which was then reformed in 1951 under a strong Soviet influence. This new version intended “to reflect the economic processes in the enterprises according to the first 5-year plan” (Calu, 2005: 189).

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 the State. It did not serve decision-making by any other user. Cost accounting and financial reporting formed together a unique system, founded on the production process (Feleagă, 1996: 89). Financial statements were not public and contained information irrelevant to making economic decisions. Under this system,

financial statements served solely the purpose of reporting the fulfilment (or should we say, the *over*-fulfilment?) of the plan. In such a system, accounting records are more important than financial statements (Nobes and Parker, 2008: 246). Accounting was required to fulfil the needs of the central institutions of the planned economy, such as the State Planning Commission, Central Statistical Office, Ministry of Finance, and the other economic planning ministries (Schroll, 1995). A tendency for secrecy developed, because the information was not publicly available.

Accounting was centralized on a national basis both in relation to the determination of accounting principles and the chain of commands over accountants, to a greater extent than in Poland and even the Soviet Union (Kosmala MacLulich and Gurău, 2004: 16).

In this context, it is interesting to note the way in which accounting theory and practice reacted to the new orientation. Nobes and Parker (2008: 246) notice that “Accounting practices in the communist countries of Central and Eastern Europe were very distinct from, and largely cut off from, those in Western Europe [...] this distinctiveness was inevitable in the absence of privately owned enterprises and market-determined prices”. More than that, accounting had a low status and was largely a matter of clerical bookkeeping. This led to an underdeveloped accounting profession, only having bookkeeping competencies. The Romanian accounting model in the communist period had two main functions; that is to inform and to provide a basis for control (Kosmala MacLulich and Gurău, 2004: 16).

As regards the accounting theory, along with those “adapted”, a tendency in maintaining and developing the previous (pre-communist) legacy was manifested. For example, Mărculescu published in 1967 a study based on French and US literature and developed the qualities of the accounting information, Demetrescu published in 1972 a history of accounting, Dumitrescu (1973) considered accounting as a branch of mathematics based on economics and law, some authors present in their books advanced methods of cost calculation adapted from international literature (Ionașcu, 1997: 193). Some authors discuss the terms ‘accounting’ and ‘accounting evidence’ and conclude that “accounting is more appropriate to our language in order to express the theoretical and practical preoccupations” (Rusu, cited in Calu, 2005: 176), and others debated on the object of study of accounting. But these contributions to accounting knowledge were “limited considering the conditions” (Ionașcu, 1997: 194).

In the context of communism, a collective view on accounting is developed regarding its role (to serve the State), the low status of the accounting profession, the secrecy over the accounting information, the role of the State as the sole user of such data, and accounting as a means of recording, while certain practices, concepts or terms are evolving.

3.3. POST-COMMUNIST ACCOUNTING (1990-TODAY)

After the fall of communism in December 1989, Romania underwent a number of dramatic economic and accounting reforms that better reflected western business principles. For example, the economy witnessed the privatization of state-owned companies, a policy of enhanced competitiveness, internationalization, and receptiveness

of capital inflows and investment opportunities. According to the World Bank Report (2007), this has resulted in a fast growing GDP, declining inflation, and improved social indicators. Finally, although Romania significantly accelerated the implementation of structural and institutional reforms after 2000 to enable EU-integration, several structural reforms however still need to be completed or further developed despite successful completion of the accession process in January 2007 (World Bank, 2007). This shows that the Romanian economy is still at a transition stage.

The fall of communism and the transition towards a market economy represented a major event that caused a shift in accounting actions. New types of entities emerged, the prices started to be market-based, and new economic relations developed. The necessity for restructuration after 1989 was primarily based on the argument that the existing accounting regime had been created in the context of an excessively centralized economy in which the state owned the majority of enterprises (Duția, 1995: 739).

The French accounting model served historically as an inspiration for the Romanian model. In this respect, Calu (2005: 203-204) presents a project of reform for the Romanian accounting model dating from 1984 and based on the French model, a tendency which continued to manifest in the immediate years after the Romanian Revolution of 1989. As such, the same author shows that between 1990 and 1993 the French system was taught in Romanian universities and it was the model that informed the first accounting reform in Romania (p. 213). The first accounting act after the revolution was the Accounting Law no. 82 of 1991, accompanied by Implementation

guidelines (Order of the Minister of Finances no. 704/1993). Thus, the period between 1990 and 1993 was one of mixed application between the use of a soviet accounting system of and the evolution towards an accounting system of French inspiration (Calu, 2005: 214).

The accounting model of French inspiration was the basic model effectively applied starting 1 January 1994 as a result of the long and close historical, economic, political and social relationships built up between the two countries over a long period (Feleagă, 1993; Delesalle and Delesalle, 2000, Ionașcu *et al.*, 2007).

Regarding this phase, a representative of the Ministry of Finance interviewed by the authors of this paper revealed the compromised nature of the change:

“...still, we could not “take” the French accounting model as we were financed through PHARE funds, which could not have been used to “export” an accounting model to another country. Therefore, we have only taken the French general chart of accounts, and our legislation was harmonized with the European Directives.”

Feleagă (1996: 91) supports the French option via arguments related to classifications of accounting models. Also, Ionașcu (1997: 195) posits that, considering the variables used to select an accounting model (i.e., economic, juridical, cultural, fiscal), the Romanian option at that time was the appropriate one. He also notices that “the evolution of the Romanian accounting will be influenced by the future economic transformations and the international tendencies” (the international harmonization):

“based on the Romanian tradition, regulation should be based on a national accounting plan (n.a. in the French sense), but this is not exclusive of a conceptual framework [...] which should incorporate international tendencies... This framework will have as consequences: a coherence of national accounting regulations, the internationalization of the accounting language, and an increase in the credibility of the regulatory body and a scientific progress” (Ionaşcu, 1997: 196).

Also, Feleagă (1999: 333) states that:

“The Romanian accounting evolves in a tri-dimensional context:

- the political, juridical, economical, financial, social and cultural environment specific to Romania particularizes it from other systems;
- the historical European and continental legal vocation makes Romania to resemble to other systems based on code-law;
- the globalization process and international accounting harmonization.

It is interesting to note how closely this analysis mirrors the arguments put forward by Alexander and Servalli (2010).

Traces of the communist accounting model seemed to continue to manifest, as various concepts and practices remained, and difficulties in making firms accept responsibilities existed (*idem*: 333). The same author seems aware of the requirements of modernization of the Romanian model (*idem*: 333 – 339), even in the context of several elements that did not sustain an Anglo-Saxon accounting model for Romania (the economic model, the financing system, the relationship with taxation, the use of the chart of accounts that should be maintained); several elements from the Anglo-Saxon model could have a

positive impact on the Romanian model, such as the regulatory body, the adaptation of the conceptual framework, the improvements in disclosure and measurement practices, and the development of accounting concepts and principles. Concluding, he states that “Romanian accounting should be prepared with an infusion of Anglo-Saxon practices and concepts [...] otherwise we would miss the chance to evolve into an accounting model appropriate for the 21st century” (*idem*: 339).

The chance to have done so (‘evolve into an accounting model appropriate for the 21st century’) emerged in the late 1990s, as the Romanian regulator turned its view to the IASs (at that time), while not forgetting about European Directives. This evolution towards a system of Anglo-Saxon inspiration was the result of an external imposition, as one representative of the Ministry of Finance (interviewed by the authors in relation to another research project) explains:

“In 1997-1998 the World Bank assisted Romania with money for the reformation of the financial reporting model. But they imposed four conditions: the application of IASs by several large companies; the requirement that these companies be audited against International Standards of Audit; the Ministry of Finance needed to issue guidance for the implementation of IASs; and the creation of the institution responsible for the activity of financial auditing”.

This programme was undertaken by the British government (through the Know-How Fund), providing assistance to the Romanian Ministry of Finance to further develop the Romanian accounting model (through a so-called Accounting System Development Programme). The consultants selected by the British government were The Institute of

Chartered Accountants of Scotland (ICAS) (King *et al.*, 2001). It resulted in the increasing demand to apply IASs between 1999 and 2005 (through the OMFP no. 403/1999 and subsequently through the OMFP no. 94/2001 for the harmonization with the European Directives *and* International Accounting Standards) (italics added). At the same time, companies not complying with the quantitative criteria detailed in the OMFP no. 94/2001 had to prepare financial statements in accordance with the European Directives (contained in the OMFP no. 306/2002). As one could easily expect, the change from the communist, then the French orientation mentality, to one based on principles, was not straightforwardly digested. Referring to this phase, Nobes and Parker (2008: 251) cite Roberts (2001) noticing in Romania some conflicts and confusions caused by mixing a French-based philosophy with IASC content.

One of the pragmatic problems during this phase was the dramatic change in the conceptual basis. In this regard, Bunea (2006) reports a number of problems that prevented real improvements of the quality of financial reporting: the lack of financial resources to implement IASs, difficulties perceived by the Romanian accounting profession in exerting professional judgment as required by IASs, Romanian accountants being used to apply only taxation treatments, and the poor awareness of Romanian managers with regard to applying valuation concepts.^{xviii}

IASs implementation was difficult and usually only partially accomplished, while displaying a major input from the auditors. In our opinion, this step in the accounting reform had only a limited effect on financial information transparency, the use of

professional judgment and the quality of accounting information, far away from the exigencies of Anglo-Saxon accounting models. The historical cost valuation and the relationship between accounting and taxation remained in the existing accounting practices.

We acknowledge the fact that real accounting change is a slow process and the transferability of accounting concepts from one culture to another is controversial. Previous institutional elements remain in the new way of doing things. Concerning previous implementation of IASs in Romania, Țogoe (2003, cited in Ionașcu, 2007: 118) noted that there is “a local method, rather brief, of understanding and application of IASs”. In the same line Păunescu (2006) shows that in many cases fiscal rules prevailed over IASs requirements.

Larson and Street (2004), in a survey conducted at the same time when IASs were supposed to be implemented in Romania through OMF 94, show that the impediments to achieving convergence in Romania are the complicated nature of standards and the insufficient guidance, as well as the tax-driven nature of the national accounting regime. These conclusions may be supplemented by local research; for example, it seems that change is not also properly perceived by accountants. In this respect, Bunea (2006: 143) shows that accountants do not perceive any change^{xix} between OMF 94 (requiring IASs application) and OMFP 1752 (the following regulation, based primarily on the European Directives). Istrate (2007) analyzes the way Romanian companies applied IAS 16 under OMF 94: more than half of the entities under analysis revalued fixed assets but in the

manner and timing required by the fiscal authorities. The methods used for computing depreciation were generally the straight line one and the accelerated^{xx} one in some cases, both of them being considered as of a clear fiscal orientation. Also, the author analyzes the way the Romanian companies applied IAS 37 under OMF 94: out of 12 entities, 6 do not have any provisions in their balance sheet; the author interprets this “either the entities have an excellent risk management, or there are some lacks concerning the application of IAS 37”. Also, the author notes that the other 6 entities mostly present provisions for court cases or other provisions generated by the law.

We may assert that even though a *de jure* harmonization between national regulations and IASs existed, the *de facto* application of IASs was scarce. The only coercive factor was the World Bank demand and this pressure was exerted on the national regulator and to a lesser extent on companies which were supposed to apply IASs. Considering that the users did not demand information, best practices of IASs application were not available, and the profession (maybe except for the auditors from Big 4) did not insist on a proper implementation, the process of change was of a reduced importance.

An explanation for this limited outcome of this step in the Romanian accounting model reform, which may also have an impact on its future evolutions, might be the fact that the responses of organizations to the institutional pressures are not uniform. Also, the rule-based orientation of the Romanian traditional accounting model, as well as of the Romanian accountant, can play a significant role in the delayed process of *de facto* implementation of IFRSs in Romania. As Alexander and Servalli (2010) put it,

“... the IASB environment is very significantly different, and, at least partly, incompatible, as compared with the majority of the individual 27 member countries of the EU. To put it in Darwinian terms, an organism crafted for coherence with, and to survive and develop within, one environment, has been transferred to a different and alien environment. Difficulties are predictable and inevitable. For survivability in the alien “prudential regulation” environment, adaptability will be essential to allow any hope of survival. Note also, and the point is crucial, that such adaptation would not be likely to lead to coherence between organism and environment in the investment decision-making context. The emergence of multiple sub-species is indicated.”

The current stage required enactment of the European accounting Directives, as Romania was now moving towards becoming a member of the European Union^{xxi}. As a reflection of an incomplete transition to an accounting model of broadly Anglo-Saxon inspiration, the OMFP no. 1752 was issued in 2005 for the enactment of the 4th and 7th European Directives, resulting in a step back towards conservative accounting treatments. Regarding this step, an auditor in the Romanian branch of one of the Big Four argued that the implementation of the 4th European Directive in Romania was a step back for the companies already applying IFRS, as “...there can be no comparability of financial statements if companies can choose between multiple alternatives”. Yet, representatives of the Ministry of Public Finances argued that some of the accounting treatments were taken from the IASs, “as companies had already used them.”^{xxii} Regarding this Order, in another paper we have written [reference suppressed for anonymity], we found support to consider that financial statements prepared in accordance with OMFP 1752/2005 with

supplements are unfortunately not giving a true and fair view, but a fiscal image serving the needs of the Romanian state.

As regards IFRSs, since Romania's 2007 adhesion to the European Economic Community (EEC), IFRSs are mandatory for consolidated accounts for listed companies starting January 1st 2007 (OMFP no. 1221/2006), as well as for financial institutions. An option to choose between the 7th ED and IFRSs is available for non-credit and non-financial unlisted entities for their consolidated accounts.

This concludes the section dedicated to Romanian history. The exposed stages in the development/adjustment of the Romanian financial reporting model can be analyzed via the lens of our theoretical model.

4. DISCUSSION AND CONCLUSIONS

As we previously argued, there is a link between the environment and the nature of the accounting service in the sense that the environment determines the purpose of accounting, and therefore the nature of the service^{xxiii} which is consistent with that environment. Given the historical conditions which prevented the economic development in Romania, before 1800 “accounting was not a necessity of the Romanian economic life” (Dobroțeanu, 2005: 282). After 1800, when commerce started developing, accounting books and courses begin to be found in Romania. The simplest example of the fact that accounting developed as a consequence of the economic development is that the

first books and courses appeared in the most important commercial towns (Braşov, Sibiu, Bucharest, Iaşi, Galaţi).

The origins of Romanian accounting books were French in Wallachia, Italian in Moldavia and German in Transylvania (Demetrescu, 1972: 292), following the respective cultural influences on each of these Romanian territories (Demetrescu, 1947: 7). Even if the origins of the Romanian accounting literature are not original, the development of the accounting thought was based on cultural influences and was not an external event or imposition. Radu (1995: 29) notices that even if the first authors used foreign sources, “their opinions and original contributions were based on the specific conditions of Romanian territories at that time”.

The role of accounting increases as a response to the economic environment. The regulation of accounting was firstly considered for state-owned enterprises, and only after 1941 did discussions begin for all entities. In this context, we may say that accounting developed in the economic/cultural/linguistic environment and adapted to fulfil the functions it was required to provide. For example, in 1901 I.C. Panţu deals in his book with the issue of preparers and users (Rusu *et al.*, 1991: 236). We underlined the importance of the juridical-economical theory (based on the concept of patrimony), its proponents, Spiridon Iacobescu and Alexandru Sorescu, being considered “the founders of a Romanian accounting school, the patrimonialist school” (Demetrescu, 1972: 286).

As regards accounting regulation, it was made by the State, with a strong orientation towards the chart of accounts (as developed by Schmalenbach). This is a normal orientation found in other countries in Eastern and Central Europe, characterized by the absence of sophisticated equity markets, emphasis on creditor protection and tax collection (Nobes and Parker, 2008: 245). We may also therefore conclude that the regulatory system was compatible with the needs of its environment.

After the Second World War, Romania entered under Soviet influence, which generated the switch to a planned and centralized economy. In this context, "... accounting was used to offer information for statistical purposes and forecasts at national level" (Calu, 2005: 145). Communism was for Romania a major shock (in Alexander and Servalli's words) which caused a change of accounting actions. After the shock of changing the economic model, accounting developed in order to fulfil the functions it was expected to provide: gathering information for the only user, the State. Accounting actions evolved in this context, characterized by the role of the State, the industrialization and the role of the production process. Feleagă (1996: 90) considers that the integration of cost accounting and financial reporting (monism) was an appropriate option considering the conditions of a socialist economy.

After the fall of the communist regime, there were several accounting changes in Romania. The economic environment evolved slowly towards a market economy, while users' needs slowly increased and diversified accordingly. The Soviet-based system was not appropriate anymore to the new economic conditions. But the State still was (and

continues to be) the privileged user of financial statements. In this environment, accounting was subject to several changes. Again, the regulatory system needs to be compatible with, and meet the everchanging needs of, its environment.

The first step of the accounting reform was based on the French model. The accounting model of French inspiration was the result of the cultural, juridical, economical similarities of the two countries (Feleagă, 1993; Delesalle and Delesalle, 2000, Ionașcu *et al.*, 2007). This was a period of “reconnecting to traditions and alignment to international reality” (Calu, 2005: 214). For example, the concept of ‘patrimoniul’, the chart of accounts, the State as the regulator, are only a few examples of elements used or intended to be used in the Romanian model before the communism, and the French model permitted to continue these traditions and also be harmonized with the European Directives.

The public regulatory model may be discussed from different points of view. Nobes and Parker (2008: 247) link the role of the State in this process to the previous state-directed economy, but also to the need of consistent reforms with European Directives. As previously noted, before the communism, the regulations were intended to be made by the State, as in other countries oriented towards an important role of the State in the economy, towards a link between accounting and taxation and with a credit-financing system.

As attitude, culture, thought and practice are not free from influences from the past, the tendency for secrecy developed during the communism, the preference for rules and obedience to them, some accounting practices and concepts still remained after the communism ended. The way a firm operates, the features of financial markets, the role of accounting professions, the accounting regulation model adopted and the accounting rules' content depend on business and anthropological cultural dimensions.

Various waves of accounting reforms of the Romanian financial reporting model generated considerable debate in the national and international literatures as a result of rapid changes (Feleagă, 1992; Delesalle and Delesalle, 2000; Bunea, 2006; Ionașcu *et al.*, 2007). Even though Romanian researchers supported the improvement of the accounting system with some Anglo-Saxon concepts (Feleagă, 1999; Calu, 2005), they do not agree with an Anglo-Saxon model for Romania. But the demands of the World Bank generated the requirements to adopt IASs by large companies. The next stage required enactment of the European accounting Directives, as Romania moved towards becoming a member of the European Union, and IFRS are mandatory only for consolidated accounts for listed companies starting January 1st 2007 as well as for financial institutions. But IFRSs application is demanded by some users. How can this situation be explained?

When accounting regulation change takes place, the progress of the new regulation is linked to its relationship with the (non-static) environment. Variations are likely to take place that will lead to a greater consistency between the regulations as applied, and the user-oriented aims of the financial reporting environment. Considering a typical situation

of variation in the accounting regulation field, such as the introduction of new accounting standards, it involves an environmental test, a selection process, that can lead (or not) to an effective solution able to locally survive (principle of inheritance). We should again emphasise that organism and environment, i.e. accounting regulations and user needs, are both likely to be mutating at the same time.

Of course, the IASB environment is very significantly different, and incompatible, as Feleagă (1999) shows, with the Romanian environment. But “the nature of the accounting as a service should be in accordance with the environment” (Alexander and Servalli, 2010). At that time, the main user was the State, even for large entities, while accountants preferred rules and not principles, and publishing financial statements was perceived as merely a legal obligation, not a logical necessity. More than that, as Nobes and Parker (2008: 247) also note, “...in transition, there has been a serious shortage of skilled accountants and auditors. The profession has had difficulty in acting as a source of improved practices and regulations”.

But were IASs compatible with the Romanian environment? As previously noted, the answer is no. There are only a few (and with small databases) empirical studies, but they support the fact that the conformity with IFRSs was limited. Ionaşcu *et al.* (2007: 178) cite World Bank reports of 2003, admitting that in practice the conformity with IASs was partial with respect to several standards and that giving the strong link between accounting and taxation, “a tax application of IAS/IFRS was often made”. We may say that this outcome was expectable, giving the economic conditions. Or, in other words,

accounting which is inconsistent with the environment will fail to survive. The imposed regulations mutated to adopt characteristics more consistent with the local context.

Nowadays in Romania, apart from listed groups where EU-endorsed IFRS are of course compulsory, IFRS are only applied by those entities whose users expect or demand information in accordance with IFRSs. Our interviews with users, preparers and auditors (presented and discussed at length in [reference suppressed for anonymity]) revealed that some entities use IFRS because of the users' pressures; several interviewees agreed that demanding users do not perform an analysis or make decisions based on the statutory financial statements, requiring IFRSs information instead.

We posit that the reduction in the scope of IFRS was accompanied by a change process more radical than in the previous period, i.e. a more thorough application of IFRSs by those companies whose environment is compatible with them. This is explained by other factors affecting IFRSs implementation: users begin to require more qualitative accounting information, auditors are more demanding, and preparers become better qualified. However, we cannot say that nowadays IFRSs are fully understood and implemented in Romanian companies, but we advance the rationale that merely imposing some standards is not enough to have them applied. More than that, the globally oriented environment in which the new IASB standards were created is different from the environment in which they are applied (member states of the EU for example); hence, they might be effectively applied in a different (mutated) manner. As our framework shows, to the extent that the internal anthropological reality and/or the internal

accounting reality of country A are different from the internal anthropological reality and/or the internal accounting reality of country B, we can expect differences to occur between the two countries in the accounting behavior within a new paradigm.

This discussion is particularly interesting in the case of emergent/transition countries, such as Romania. The main focus of the Alexander and Servalli model on the complex interrelationships between the species and its environment, as well as their emphasis of the socially constructed human influence on both elements, are central to explaining the *status quo* in Romania. While we agree to their proposition that in order to survive, a species must fit to its environment, we add to their model the role that what we call to be *major* species can sometimes have on its environment (in this respect, the environment should fit the species)^{xxiv}. As such, the accounting model as proposed by the Romanian regulator decisively influences its environment by preventing or at least hindering its development towards an evolved one (i.e., better serving the needs of the users), instead of the environment pushing the species towards an improved version. This would paradoxically imply a somewhat separate evolution of the species and the environment, in that the environment develops other species to fulfil the role of the species which fails to do so (the fact that the banks extensively ask for supplementary information besides the financial statements for financing decisions). In the context of Alexander and Servalli's multi-dimensional model, a species which is superior in one dimension (e.g. global, investor-focus) cannot survive in another (Romanian environment), and secondly, the local species as developed by Romanian regulators hinders rather than helps the local environment to become more compatible with the (externally-perceived) superior species.

How will all this evolve in the context of the Romanian next “‘nows’, chronologically parallel but contextually distinct”^{xxv} (in Alexander and Servalli’s own words)? In this respect, the Romanian case study offers in-depth exploration of these complicated interrelationships, testifying for the explanatory power of the model used.

A decision the Romanian regulator has to make soon is whether it allows Romanian SMEs to use the newly issued IFRS for SMEs, or forces them to only use the future revised 4th European Directive for this purpose. Since Romania is an EU member, it will probably have to wait for a ‘signal’ from the European Commission, but a national perspective should be created as regards this issue. Unfortunately, we heavily doubt this will happen, considering the long history of Romanian regulations. In Romania, for a majority of SMEs the main user is considered to be the State. However, we may notice from our interviews that Romanian users only demand quality information to a small extent. Also, the information provided in accordance with national regulations seems not to be reliable for users other than the State. In our view, there are entities for which the State is indeed the main user and entities that have users such as banks and lenders, but for which the State has coercive methods to impose its needs, and that is the reason for which it is perceived as being the most important user. We assert that the application of the IFRS for SMEs is justified only for the second category of entities. Under these assumptions, the national criteria for the entities applying the IFRS for SMEs should be based on their accountability and not their size. Based on previous experience, we may anticipate that the Romanian criterion will be the size, which will generate supplementary costs for some entities with a reduced benefit from IFRS implementation. On the other

side, we acknowledge the accountants' preference for specific rules and criteria, and this is the reason for which we consider that users should increase their demand for relevant information. User needs should be given higher priority, over the convenience of preparers (or of the national regulator).

Since, in addition to the State, banks have become the most important external user of SMEs financial statements (the owners being involved in many cases in the management of the entity) and the banking business has also become global, we think that the widespread use of the SMEs standard, as opposed to the state-focused Romanian regulatory system, might be enforced by the banking sector, such as was the case of stock exchanges for the implementation of full IFRSs for public (large) entities. The current economic crisis seems to shift the banks towards this direction, since they now need more reliable and comparable accounting information than ever. Hopefully, the decision made by the Romanian regulator would be compatible and reflective of the characteristics of the Romanian environment (including users of financial statements information).

Each national accounting system is involved in a local environmental resources system, the local accounting regulation model adopted with its specific actors, interacting in order to survive. Romania is a case study of the interaction of the factors affecting the accounting system and its survival. The Romanian regulator (the Ministry of Public Finances) needs to acknowledge the "intersubjectively constructed social nature of the accounting function" (Alexander and Servalli, 2010), and to design an accounting model which can be subsequently applied by companies in particular accounting models

appropriate to their environment. A local perspective should be gained regarding accounting matters. This perspective would allow the Romanian regulator to tailor the provisions it issues to the needs of the environment in which companies operate.^{xxvi}

As we have already shown in another paper [reference suppressed for anonymity], there seems to be a general consensus in Romania (except of course the national regulator), that the only user of financial statements issued in accordance with national regulations (at that time, the OMFP 1752/2005 with supplements) was the Romanian State, through its fiscal bodies. The needs of other stakeholders do not seem to be satisfied through these regulations, and this lays pressure on the shoulders of Romanian companies which need to issue supplementary sets of financial statements complying with IFRSs for example, or to produce and provide additional information to funds providers, such as the banks. In this context, the needs of the environment are probably ultimately satisfied, but with great efforts and resources waste from the 'individuals' (i.e., the companies). In this respect, not much (attitudes and ways of thinking) has changed in Romania, even in the context of the so-called internationalization of the Romanian financial reporting model (enactment of EU directives and exposure to IFRSs).

A possible solution to this is the issuance of a set of Romanian standards (such as is the case for example in Hungary), which would take into account the characteristics of Romanian companies, users and environment. This set might be based for example on the provisions of the newly issued IFRS for SMEs, considering the “economic/political/cultural/linguistic environment in which the (n.a. Romanian)

regulatory system is operating” in Alexander and Servalli’s words. It is the personal opinion of the authors of this paper that using full IFRSs as a guide for such standards would not be efficient, as the simple transposition of full IFRSs into the Romanian standards would presuppose that the Romanian context is similar to the international one, which is simply not true (as our base model clearly states). An extensive study of the features characterizing the Romanian setting should be performed before such standards can be issued (an “environmental test” in Alexander and Servalli’s words). The continuous issuance of Ministerial Orders which regulate accounting seems to be a clear case of trial-and-error rather than a thoughtful (i.e., considering the environment in which the *species* operates) process.

Equally important, the Romanian regulator needs to acknowledge that “accounting is mutually interactive with the environment within which it operates”. This proposition of Alexander and Servalli’s stresses the role that the accounting model could/should play in shaping/changing the environment in which it operates, besides the obvious reverse influence. The role the accountants, the managers, the users, the general public, play in this process is shaped by their perception of the current accounting model in general, i.e. that of a servant of fiscal authorities. This lack of trust of the stakeholders in the capacity of the Romanian accounting model to answer correctly to their needs makes them reject the outcome (i.e. published financial statements), and demand supplementary information. Of course, this attitude is ‘encouraged’ by the regulator itself, in that it only accepts input from the stakeholders with great difficulty.^{xxvii} It is our opinion that, to the

extent the regulatory model remains strictly public, emanating solely from the Ministry of Public Finances, these changes are not likely to appear any time soon.

A characteristic which we think can provide valuable input to any (including accounting) change process is the mentality of the people. A fundamental book discussing the psychology of the Romanian people (Drăghicescu, 2006, originally printed in 1907) argues for an “instability and uncompleteness of the Romanian soul” caused by the “repeated historical upheavals”; these events prevented Romanians from the elaboration of a “lasting model of working and living” and from “ordered manifestation”. While these are probably true, transferred to accounting matters, such features may explain some of the choices made by the Romanian regulator over time. Hopefully though, the “need of independence” (proposed by the same book) might ultimately generate a national-wide debate regarding accounting (regulatory) issues, with the outcome reflecting a Romanian perspective on the local/European/international environments in which accounting operates nowadays.

The cases of other EU member states may be further studied by other researchers and contrasted with the Romanian case. The accounting model of other ex-communist countries might exhibit similar circumstances, while accounting models of more advanced (western) economies might reveal different ones. For example, the extent to which IFRSs are assimilated in the Bulgarian, French or German settings might differ based upon the respective countries' anthropological characteristics, but also needs of the

users and the current environment. We believe that exploration of these different settings would also be informed by consideration of the Alexander and Servalli model, but this again is an empirical issue for others to investigate.

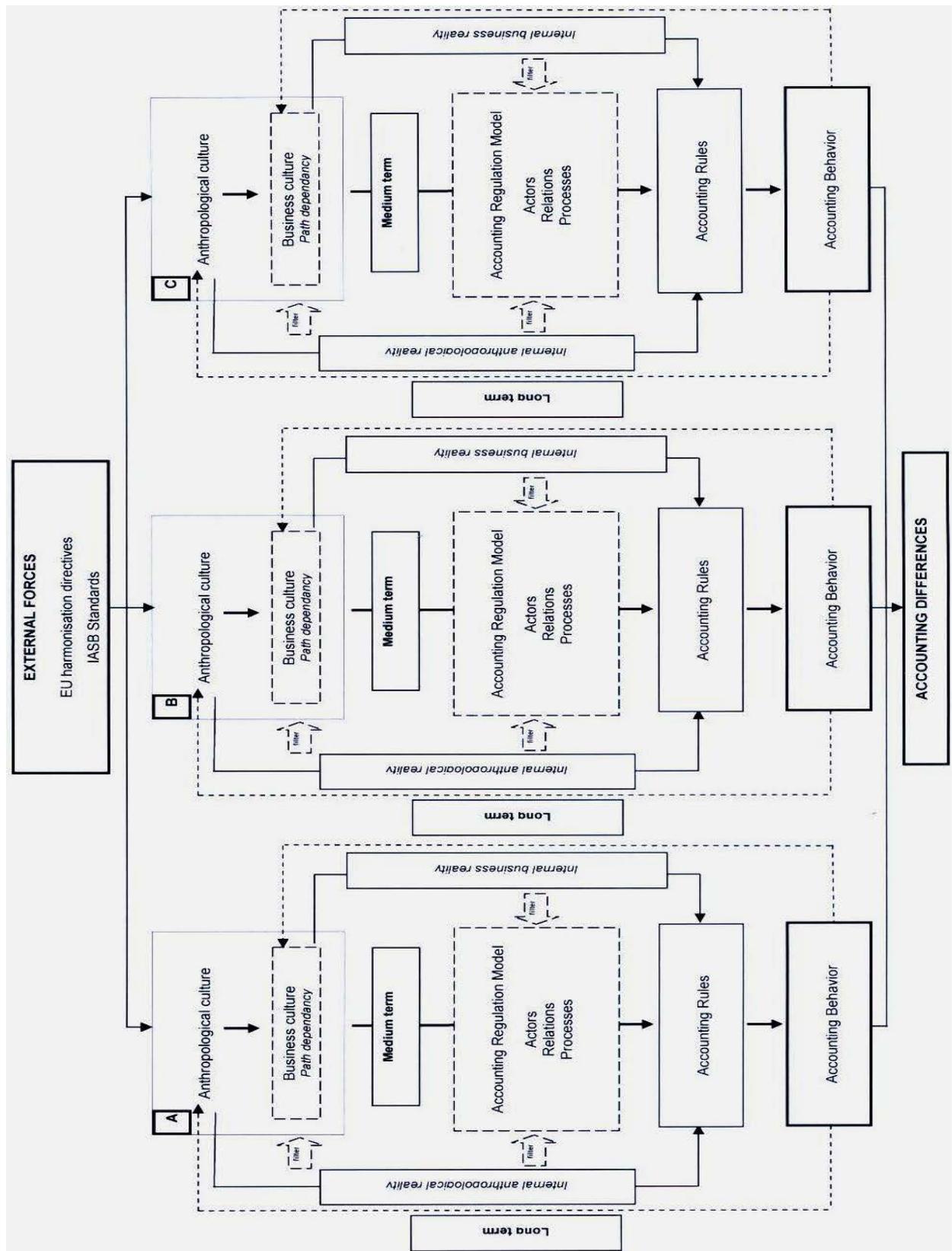


Fig. 1 Analytical framework (Source: Alexander and Servalli, 2010)

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ⁱ Also see Quattrone and Hopper (2001) for a thorough analysis of the concept of organizational change, introducing the concept of *drift* to explain change.

ⁱⁱ As of this moment, we should note that in 1918 modern Romania was formed, when the individual countries which existed before, unified. In history, Romanian principalities existed mainly independently of one another (at least in a formal manner), due to mainly external pressures. Two of those principalities, namely Moldavia and Wallachia, unified in 1859, and gained their independence in 1878 (recognized at the international level). Later, the Unification of 1918 led to the formation of Greater Romania, when Moldavia and Wallachia were joined by Transylvania, Bukovina and Bessarabia. At the end of World War II,

Bessarabia (generally what is known today as the Republic of Moldova, ignoring recent local developments) was ceded to the former USSR, forming present day Republic of Romania.

ⁱⁱⁱ By this wording, the authors explicitly do not mean “research hypotheses tested empirically and which can lead to generalisable conclusions in a positivist-functionalist approach”; but mere propositions which could ultimately apply to other accounting contexts, and which can be investigated empirically (though probably not in a statistical approach) by other researchers.

^{iv} Ro. “După anul 1800, comerțul românesc, în care s’au introdus formele și metodele moderne ale comerțului apusean, începe să se desvolte, să stabilească relații mai strânse cu celelalte popoare și să simtă și nevoia ținerii socotelilor, deci a apariției însemnărilor contabile.”

^v A machine factory is founded in Arad in 1825, the first sugar factory in 1831, and the commerce is developed in cities such as Sibiu and Brașov.

^{vi} “Începuturilor modeste ale aplicațiilor contabilității i-au corespuns începuturi tot atât de modeste ale literaturii contabile românești manifestate prin traduceri de cărți străine de contabilitate (franceze, germane și italiene). Astfel, primele lucrări de contabilitate publicate la începutul secolului al XIX-lea au fost traduceri din lucrările germane și franceze, la care s-au adăugat și câteva sfaturi cu caracter de morală religioasă, potrivit obiceiurilor din acel timp.”

^{vii} The author translates “scrittura doppia” by “scrisoare (scriptură) îndoită” which later became “partida dublă”.

^{viii} Between 1866 and 1887, 8.2 factories were founded each year, while the same number increased to 14 between 1887 and 1893 (Radu, 1995: 7). A number of manufacturing facilities (ro. manufacturi) existed on the Romanian territory – for example, in 1845, 295 such facilities were reported by the Austrians in Transylvania only. 210 factories were reported in 1890 in Romania, while 379 were reported in 1900 (CECCAR, 2006).

^{ix} In 1897, 70 banks were reported in Transylvania (CECCAR, 2006: 8).

^x Ro. „În România, deși necesitatea comptabilității s’a recunoscut întru câțva dela anul 1854, totuș s’a aplicat izolat și după metode variate, din două cauze: lipsa de școale speciale și neaprecierea foloaselor acestei științe din partea celor chemați a administra case publice sau private.”

^{xi} Ro. „În ceea ce privește însă titlul de „comptabil”, el este cu totul opus țiitorului de registre. Pentru a posede titlul de comptabil, în adevăratul sens al specialității, este necesar a posede un ansamblu de cunoștințe economice, financiare și legale suficiente.”

^{xii} By 1926, the Body had 56 chapters and comprised 6.565 accountants, of which 1.932 expert accountants, 4.076 licensed accountants, and 557 apprentices. By 1938-1939, the Body comprised 15.000 accountants, in 70 chapters. The body organized a congress every other year, until 1941 when the War made it impossible. Representatives of the Body participated at various international congresses, including the International Accounting Congresses. The Body functioned until 1951 when the communists dissolved it (CECCAR, 2006). It was then recreated after 1989 and is currently functioning.

^{xiii} Ro. “Cercetătorilor nu le-a fost greu să observe că în alte țări contabilitatea ca esență științifică este una și are o bază, o gândire proprie și un vocabular adecvat. Literatura științifică românească în domeniul contabilității a progresat uimitor de repede.”

^{xiv} Columbia University’s Professor Montgomery finds it surprising that the largest number of regulatory documents on the organization of accountancy professions was found in Romania (CECCAR, 2006: 93).

^{xv} It should be noted here that the concept of ‘patrimoniu’ is characteristic of mainland Europe accounting models (based on the legal approach to accounting). The concept has no proper equivalent in English, where the word relates to money received from one’s dead father.

^{xvi} Ro. „eminamente juridică și foarte puțin economică”.

^{xvii} Ro. „Prin stilul său elegant și academic, prin sistematizarea capitolelor și mai ales prin contribuțiile originale ce le cuprinde, tratatul de Contabilitate generală rămâne un monument de știință românească.”

^{xviii} Managers generally conceived this requirement as simply a shift of presentation of financial statements rather than the implementation of accounting policies in accordance with a reflection of ‘economic reality’ of their enterprises.

^{xix} The study was conducted on 100 accountants; 72% consider that the changes are insignificant, and 23% do not see any difference.

^{xx} This is a fiscal method allowing an important deduction (50%) in the first year, followed by a switch to the straight-line one starting the second year. It is generally agreed that such a pattern is difficult to justify economically.

^{xxi} These continuous changes and the entire evolution has drawn criticism (see Roberts, 2000; Bunea, 2006; Ionașcu *et al.*, 2007), with the main concerns aimed at the second phase which was referred to as a “cultural or economical intrusion” by Delesalle and Delesalle (2000) or as “[...] another case of cultural intrusion?” by Roberts (2000). As we reveal, the process of change was one of compromise between accounting models. We may note at this point that the initial phase of reform (of French orientation) was more easily ‘digested’ than the second one begun in the late 1990s through the Accounting System Development Programme.

^{xxii} Of course differences existed. For example, OMFP 1752 still allows the use of LIFO as method of assigning costs to inventories while it is no longer permitted under IAS 2 *Inventories*. Practitioners also raised some questions about the need for supplementary explanations regarding the determination of an active market, the use of fair value, or the testing of non-current assets for impairment.

^{xxiii} We consider that in essence, accounting is a service.

^{xxiv} In this respect, rather than coming from the environment, the *shock* is the species itself.

^{xxv} As saddened as we may be by predicting this, the outcome does not seem to be a positive one, in the light of the newly issued OMFP 3055/2009 regulating accounting issues starting January 1, 2010. Of course, further research is commended to other researchers, but we take the risk of noting this unfavorable evolution.

^{xxvi} A previous attempt to do so was stopped by an external shock (i.e., communism). As that time, as we presented in section 3, Romanians had apparently developed two accounting schools, creating the premises to design a model which could have been rooted in the Romanian realities.

^{xxvii} Informal discussions with participants in the alleged “due process” in Romania reveal resistance by the Romanian regulator in accepting dialogue (as constructive as it might be). Still, we need to acknowledge an improvement from previous periods.