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Evolution of management accounting concept in Russia: in a search of identity

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Abstract

In this paper I analyse factors that have shaped and currently influence understanding of management accounting in Russia. I use seven factors, identified by Bhimani (1996) in his study of management accounting practices in European nations. The main findings demonstrate that at an early stage of development of management accounting in Russia it were primarily consultants, who influenced and informed the concept with an increasing role of academics and education as well as cross-border information exchange during the last decade. Specific understanding of management accounting brought in by the first generation of consultants had significantly determined its “own” way of development in Russia, which only currently becomes more converged to the global understanding of the concept.

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1. Introduction

Traditionally, most of the research in the area of management accounting and control was conducted in the US, whereas it is only during the last decades it started to spread across continents with more papers published by authors from Europe to Australia (Bredmar, 2011; Shields, 1998). Without doubts, it is a positive trend, as better understanding of the development of the discipline in one country or region makes it easier to assess publications by

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the region's researchers and promotes further development of the field and its international integration (Schaffer & Binder, 2008).

Since the collapse of the communist system, a market economy has evolved in Russia, which provided a competitive setting for Russian companies and a need for innovation and effective strategies (Chenhall, Kallunki, & Silvola, 2011). Russia is adopting western-styled business practices, commercial, legal and accounting systems, as well as approaches to management and strategy, and formal management accounting controls, however, while western-based control practices are being integrated into routines of Russian firms, the application of contemporary practices continues to be limited (Chenhall et al., 2011).

The two-decade transition from a communist regime to an emerging market economy in Russia has resulted in a noticeable progress and Russia has the potential to become an important player in the world economy (Puffer & McCarthy, 2011). However, many Russian business practices are counter to internationally accepted ways of doing business; often they build on informal relationships and act in the environment of excess, favoritism, non-transparency and abuses of power. Coupled with the other factors it leads to the short-term orientation of many Russian managers and placing little emphasis on competitive strategy and formal strategic and financial planning by most of them (Puffer & McCarthy, 2011). Puffer & McCarthy further suggest, that

[o]ne of the defining characteristics of Russian business is the weak legitimacy of formal institutions, which fosters dependence on informal institutions such as culture and ethics. This combination of environmental influences severely limits the range of viable options in bridging mechanisms such as corporate governance and business strategies (2011, p. 22).

In the western practices, management accounting has long considered to be a part of the internal infrastructure in the market economy, supporting companies in formulating and executing their strategies (Bhimani, 2006). In Russia the early stage of the state-run reform of the national accounting system introduced a concept of tax accounting, thus accepting the fact the figures reported in the tax statements should not necessarily coincide with financial statements, providing for the latter a chance for being accepted as an "economic truth". It could have been a trigger for management accounting to switch its attention from basic reporting role, producing main "management accounting financial statements", to the role of strategic support, and thus to converge on a global understanding of the phenomenon, however this didn't happen nationwide at once. Thus, the research on management accounting development in Russia provides a promising opportunity in terms of potential findings.

It should be noticed, however, that in the global settings the English language is dominating as a means of professional communications in financial and accountancy profession. Most of the publications, discussions and conversations are conducted in English. Although it contributes to the common understanding of the issues discussed, it also poses certain limitations to understanding of what is going on in that parts of the world, where English is not the official language, as only a fraction of the available information is being spread around the world in this case. The lack of information regarding the development of management accounting in different countries limits our opportunities to learn and hinders our understanding of occurring changes (Shields, 1998). Despite Russia is a global energy and natural resource player as well as a member of the G8 economic powers, it has not been given as much attention as BRIC nations such as India and China in either academic research or the popular business press (Puffer & McCarthy, 2011). However, practices of management accounting in Russia are interesting not only as a local phenomenon, they also have influence on the other Russian-speaking countries, shaping the accounting profession and understanding of its developments there as well.

As mentioned earlier, management accounting has long considered to be a part of the internal infrastructure in the market economy, supporting companies in formulating and executing their strategies (Bhimani, 2006). Over the last decades the scope of management accounting has expanded from operational cost-management issues to participation in the strategic management process, thus widening the scope of interest to include the topic of strategic management (Hoffjan & Wömpener, 2006). Introduction of the term "strategic management accounting" may be considered as an attempt to determine a framework for the emerged strategic dimension of management accounting, however up until now the academic discussion aims to clarify the term and define its boundaries, admitting "inconsistent allocation of techniques to strategic management accounting" (Birkett, 1998; Hoffjan & Wömpener, 2006).

Contemporary understanding of management accounting globally has also been institutionalized, what is reflected in various definitions set by professional bodies. For example, as defined by Institute of Management Accountants:

[m]anagement accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy (Institute of Management Accountants, 2008)

However, in Russia management accounting is still an emerging concept, which has gone a long route from its widely held understanding somewhat equivalent to "shadow accountancy" in the 90s to "management reporting systems" or vague concept of "system of information collection, processing and distribution for management decisions support". Initially emerged as an alternative to the official accounting and reporting, which were heavily influenced by tax regulation and thus were far from presenting a true economic view of organizational activities, management accounting was often treated as something "intimate", containing the true figures (as opposed to officially reported), which were hidden from the public and were intended only for internal use. The early stage of the state-run reform of the national accounting system introduced a concept of tax accounting, thus accepting the fact the figures reported in the tax statements should not necessarily coincide with financial statements, providing for the latter a chance for being accepted as an "economic truth". It could have been a trigger for management accounting to switch its attention from basic reporting role producing main "management accounting financial statements" to the role of strategic support and thus to converge on a global understanding of the phenomenon, however this didn't happen nationwide at once.

Only recently the conversation within the profession became more inclusive of the global topics, raising a discussion of the strategic role of management accounting and the need for its transformation to create more value. The research question for this study is informed by the specific way of development of management accounting in Russia: "What factors have shaped, and currently influence, management accounting practices in Russia?"

2. Method

In the study I use seven factors that have shaped, and influence, management accounting practices in European nations, suggested by Bhimani (1996) in his research of management accounting in 11 European countries and used "to provide a historical perspective on management accounting research and practice in their country, complemented by a discussion of salient *raison d'être* for the present practice and thought in the field" (cited by Shields, 1998, p. 503). As summarized by Shields (1998) these factors are:

1. academics whose writings influence debate and practice e.g. whether full or variable costing should be used, relevant costs for decisions and, in some countries, 'champion' particular practices;
2. education of students and employees to particular views about management accounting, including the influence some textbooks and teaching cases have on the development and diffusion of management accounting practices;
3. government intervention and regulation to control cost-based pricing and profits to ensure a desired type and level of competition particularly when there were supply-demand imbalances in a national economy and, during WWI and WWII, to ration resources and reduce war profiteering;
4. professional associations which advocate particular management accounting practices;
5. consultants who advocate particular management accounting practices and/or help firms design and implement practices;
6. technology, in particular the computerization of accounting systems, which allows more information to be collected, processed, and communicated cheaper and quicker; and
7. transfer of management accounting ideas and practices across national boundaries by academics, education, consultants, and multi-national businesses (p. 504).

Methods for obtaining pre-understanding, understanding and primary data were observations in my role of consultant and educator in the field of management accounting and content-analysis of professional magazines as well as web-sites of consulting companies. It is an interpretative study, where I use a scale of influence consisting of

three levels: insignificant, moderate, significant. This scale reflects my interpretation of the extent to which each factor contributed or contributes to the development of management accounting concept in Russia.

3. Results

The results of the study are briefly described in Table 1, which contains factors, listed in the column 1, the extent to which each factor initially shaped the concept of management accounting (column 2), and the estimate of current influence of each factor (column 3).

Table 1. How factors shaped and influence management accounting in Russia

Factor (1)	Initially shaped (2)	Currently influence (3)
Academics	insignificant	moderate
Education	moderate	moderate
Government intervention and regulation	insignificant	insignificant
Professional associations	insignificant	insignificant
Consultants	significant	significant
Technology	moderate	moderate
Transfer of practices by academics, education, consultants, and multi-national businesses across national boundaries	insignificant	moderate

4. Discussion/Conclusions

This study contributes to the current discussion and practice in several ways:

- it was conducted in the Russian context, which helps to fill the gap in understanding of the developments in management accounting in this part of the world;
- it accounts for the social issues (stakeholders perspective) in management accounting, which is still not often noticed in the current academic and professional conversations;
- it considers organizational perspective and “soft” factors within the domain of management accounting, as well as environmental (contingency) perspective of management accounting.

The main findings demonstrate that at an early stage of development of management accounting in Russia it were primarily consultants who influenced and informed the concept with an increasing role of academics and education as well as cross-border information exchange during the last decade. Specific understanding of management accounting brought in by the first generation of consultants had significantly determined its “own” way of development, which only currently becomes more converged to the global understanding of the concept.

Management accounting in Russia is still in a search of its identity. That opens up plenty of possibilities for further research. Among fruitful directions may be detailed investigations of the roles of particular stakeholders, along with in-depth examination of what constitutes the Russian concept of management accounting and how it still differs from the global approach and what is, on the contrary, in common.

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