

## **THE EFFECTS OF ORGANIZATIONAL CULTURE ON ACCOUNTING PROCEDURES**

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***Abstract.** The purpose of this study is to investigate the relationships between organizational culture and accounting policies applied by the company. The study argues that how organizational and environmental variations affect the level of use of management accounting practices.*

*Firms should primarily have financial accounting knowledge with regard to managerial accounting practices. Therefore, data, which is used for to practice managerial accounting, should be accurate, reliable and in accordance with standards. At this point, financial accounting and managerial accounting split off. Research will be explained by means of "contingency approach". Contingency approach relies on the assumption of indecency from cultural and social environments.*

**Keywords:** accounting procedures; organizational culture; managerial accounting.

**JEL:** M41; F30; M10.

### **Introduction**

Organization culture is an important mezzo-level analysis for organizational studies and could be considered as a link between society and the organization. Organizational culture can prevent or reinforce the use of any kind of managerial practices, such as management accounting practices. This argument is the main proposal of this study. The purpose of this study is to investigate the relationships between organizational culture, company characteristics, perceived. The study argues that how organizational and environmental variations affect the level of use of management accounting practices.

The effects of cultural, institutional and societal practices on accounting are growing sub-field in accounting theory. The Journal of Accounting, Organizations and Society founded in 1976 by Hopwood may have indicated as a concrete demonstration of this propensity. In this sub-field or research field, accounting is considered as a social and institutional practice. According to the sub-field of accounting theory, the basic context of the accounting practices is explained by the sociological perspective.

Firms should primarily have financial accounting knowledge with regard to managerial accounting practices. Therefore, data, which is used for to practice managerial accounting, should be accurate, reliable and in accordance with standards. At this point, financial accounting and managerial accounting split off. Research will be explained by means of "contingency approach". Contingency approach relies on the assumption of indecency from cultural and social environments.

There are various definitions of managerial accounting in the literature. Managerial accounting is the sum of practices that are formed to assist management through planning of reasonable economic targets. It is also defined as the practice of historical and estimated data with appropriate techniques and concepts for rational decision-making and for reaching business goals. Managerial accounting provides the information needed by the owner of business or senior managers in decisions of new investments, leasing, purchasing, advertisement and promotion expenses etc.

### **1. The link between organizational culture and accounting.**

The development of behavioral accounting showed a change on organizational psychology and organizational field besides the development of accounting as a practice. When the citation of the researches on the development of accounting field carried out by Beattie and Davie (2008) is analyzed, many studies regarding the effect of organizational factors on accounting practices stand out. Organizational culture, which is regarded as the sub field of organizational studies, is a significant part of this movement. Whereas the movement had begun with the analysis of effect of culture on accounting in the beginning, it was degraded to the relation between organizational

culture and managerial accounting afterwards. Difficulty of measurement of culture, with the initiation of contingency approach that underpinning of surveys, resulted in increase in organizational variables and multidimensional studies. When related studies are examined in national culture and organizational culture context, the relevancy can be outlined as below.

Flamholtz (1983) has studied the accounting, budget and control systems, and organizational conditions of these both theoretically and empirically. Dent (1991) has examined the culture in terms of accounting and organization respectively and conducted a field study for a new business. Goddard (1997) has linked with organizational culture and budget control in local government in United Kingdom. Chia (1995) has worked on decentralization, managerial accounting system, information characteristics and interaction of these on managerial performance. Gosselin (1997) has studied the effect of strategy and organizational structure on the adaptation and application of activity based costing. By extending the study, the effect of organizational and cultural factors on the performance of operations management practices was examined. Williams and Seaman (2001) have investigated whether there is an effect of structural variables in national culture on the changes in managerial accounting practices in their study named Predicting change in management accounting systems: National culture and industry effects. The research was applied to the industrial enterprises, which practices managerial accounting tools, in terms of organizational structure, centralization, the level of competition and organizational capacity. A significant positive relation was found between centralization and the change on managerial accounting practices.

Chia and Koh (2007) have studied on the adaptation of organizational culture and managerial accounting practices on public sector. Two main purposes of the study are: it was found that the environmental change and adaptation of innovative managerial accounting practices mean the adaptation of organization to innovation. The case of the study is Singapore and the ministries were examined concerning public sector. It was targeted to determine the adaptation and flexibility level of managerial accounting practices and to contribute about the relation between the adaptation level and performance of these practices. The relation between the level of adaptation level variable and innovative managerial accounting practices variable were tested. Waweru (2008) has tried to define the characteristics of business which enable managerial accounting systems change. The relation between centralization and structural variables like size, competitiveness and technology of a business, and the effect of centralization on the change of managerial accounting systems were examined. Waweru (2008) set forth a positive relation between organizational structure and the change in managerial accounting systems.

Organizational information systems is influenced by organizational structure, organizational culture and change management. This is confirmed Laudon & Laudon which states that the information system is designed to serve the needs of the organization and was formed based on the organizational structure, business processes, organizational goals, organizational culture, politics and management. Turban & Volonino also stated the value of the information system is determined by the relationship between information systems, people, business processes, and organizational culture. Accordingly, it has been proven that organizational culture has a positive influence on the successful development of a new information system.

These statements in line with the results Indeje & Zheng (2010) which proves that organizational culture has a strong influence on the development and implementation of information systems, in which the identification and understanding of the meaning, beliefs, norms and power in organizations is an important consideration when developing and implement information systems. Weber & Pliskin (1996) also provide systematic evidence which organizational culture plays an important role in the effective implementation of the integration of information systems. This was confirmed by the statement Laudon & Laudon which said that organizational culture can always be found embedded in the organization's information systems.

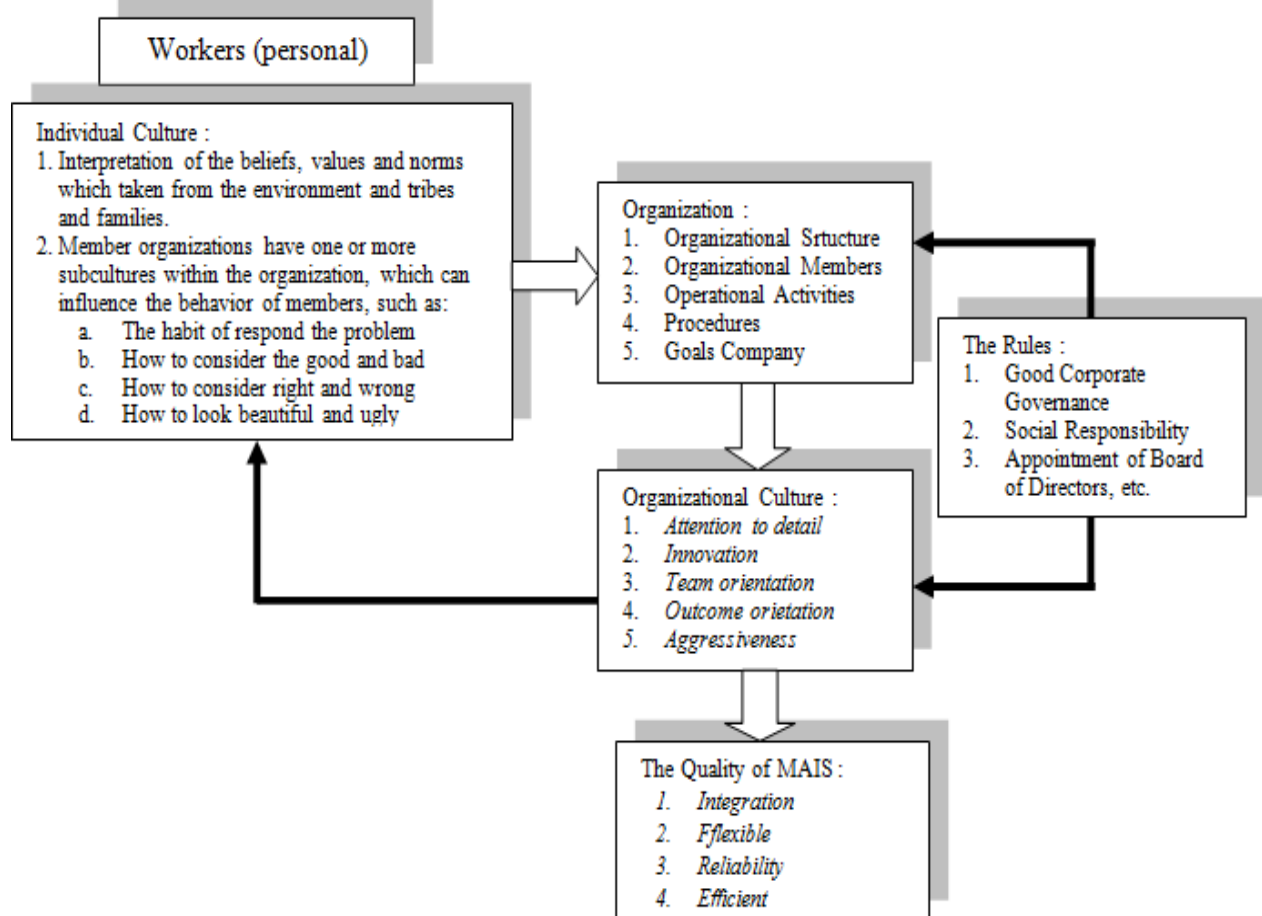
To know that the members of the organization has one or more subcultures within the organization, which can influence the behavior of members, including supporting the use of MAIS (management accounting information system). In line with the results of research conducted

Kappos & Rivard (2008), that the organizational culture influence the way how users tend to use the management accounting information systems and the influence of information systems used on the outcome of the use.

Therefore, MAIS consider this the nature of the information that corresponds to a particular organization, the methods used for the transmission of data and information, organizational culture and shared values that exist within the organization. Thus, the internal culture is an important factor in the spread of MAIS in organizations (Carenzo & Turolla, 2010). Research Agbejule (2011) also showed results that the managers realize the values of the dominant culture of their organization before deciding to use the MAIS, this study also increase knowledge and understanding of the relationship between organizational culture and the use of MAIS and how they affect performance.

Dominant values inherent in the organizational culture is the norm and confidence, where the norm is the social cohesiveness which helps employees to unify the organization run standard procedure, as well as guidelines on how much work needs to be done. While the beliefs is a series of interpretations learned establish rationale for deciding organizational members can or cannot, logical or illogical and correct or incorrect (Lustig & Koester, 2010). Accordingly, norms and beliefs to encourage employees to run a mutual agreement on common procedures and practices (Laudon & Laudon 2012), where the procedure is also the components contained in the enterprise information system (Azhar Susanto, 2008). Norms and beliefs of each member of the organization as evidenced affect the quality of MAIS in the enterprise can be reflected by using a viewpoint such as *Attention to Detail*, *Innovation*, *Team Orientation*, *Outcome Orientation* dan *Aggressiveness*. This mindset can be visualized with the following picture:

The influence of organizational culture on the quality of management accounting information systems is shown in figure 1.



**Figure 1. Framework the influence of organizational culture on the quality of management accounting information systems.**

### **Conclusion**

Management accounting information system should consider this the nature of the information that corresponds to a particular organization, the methods used for the transmission of data and information, organizational culture and shared values that exist within the organization. Thus, the internal culture is an important factor in the spread of MAIS in organizations. MAIS as information systems are generally, the MAIS are designed to serve the needs of the organization and formed based on organizational structure, business processes, organizational goals, organizational culture, politics and management.

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