

INSTITUTIONAL THEORY OF ACCOUNTING: NEW OPPORTUNITIES AND SCALES OF PROFESSION

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Abstract. The article evaluates the processes of formation of contemporary accounting theories by scholars in developed countries. Principles of the new institutional theory of accounting are elaborated. The need to transform accounting activities from a functional management subsystem into a social institution in the economic space is substantiated. The components and processes that characterize the state and influence accounting activities are described. Mechanisms to manage processes of the accounting institution are proposed. Concepts of the classification, hierarchy and interaction of the accounting institution, accounting engineering, accounting imperialism and engineering theory of management accounting are explained.

Key words: theory of accounting, institutional theory of accounting, accounting institution, accounting system, accounting engineering, accounting imperialism.

PROBLEM DEFINITION

Contemporary accounting activities face a serious problem: inconsistency between accounting practice and theory. In today's practice, accounting occupies an important place not only in the management of business entities, but also in state decision-making, decisions on the capital market. Accounting emerged from an information system at the enterprise level and reached the peak as an important, integral part of the socio-economic space within states and global business world. Accounting specialization significantly increased the number and quality of proposals for the development of modern economic professions.

Instead, accounting theory lags behind this growth of practice. The description of the functions, subject and object of accounting is limited. Methodological innovations, e.g. in terms of assessment, reporting, processing of information lack adequate fundamental rationale.

Inconsistency between practice and theory is primarily a problem of accounting science, which remains with a weak version of the theory.

Development of the accounting science is logically associated with that of economics. Economic science today also has a weak version of the theory. Yet, it is more efficient in solving this problem than accounting, due to generation of new approaches and visions.

The institutional approach has taken an important place in the development of the economic science. The institutional theory formed by economists is recognized in the international scientific community and applied in practice. Scholars in the field of accounting also have incoherent research in institutional areas. However, no paradigms, which would allow to speak about the new – institutional theory of accounting, have been formed up to this day.

The objective of the article is to substantiate the selection and application of institutional approaches to solving problems in the accounting science, and hence, to identify bases of the new institutional theory of accounting, unveiling new opportunities and scales of the profession.

REVIEW OF PREVIOUS STUDIES

Until recently, Ukrainian scientists believed that the adoption of the pro-Western Law of Ukraine On Accounting (Verkhovna Rada of Ukraine 1999), relevant government Programs (Cabinet of Ministers of Ukraine 2007), implementation of international accounting and financial reporting standards (IAS, IFRS) into practice is sufficient to reform the national accounting system to the needs of development of the market economy. Scientific research programs have been focused on this area. Yet, the expectations have not materialized, and the causes of “limited results” have never been deeply studied.

The basic nature of the updated theoretical justification for reform of the national accounting system was first announced in Ukraine in 2008, in the Concept of Development of Accounting in the Agricultural Sector of Ukraine [Zhuk 2008]. This Concept required from the academic circles to develop a new theory effective for domestic needs. It was found that the main reason for weak performance of the reforms is the attitude to the accounting system as to limited standard, technical information management process, not as a separate phenomenon with greater impact on the economy, the effectiveness of which primarily depends on sociocul-

tural psychotypes of accountants, the level of their ability for self-organization, and effect on the performance and formation of the “rules of the game”.

Figuring out the importance of the social impact on the accounting practices and science has led us to develop the theory of accounting based on the institutional economic theory. This direction of research has also been selected because it is close to the views of a number of leading scholars of the Western accounting research schools.

Thus, during the last half-century scientists observed increased importance of accounting in the socio-economic growth of the developed world, support of globalization processes through international standardization. These and other achievements have promoted the change of the theoretical concepts of accounting in the Western countries.

In publication “The Roles of Accounting in Organizations and Society” S. Burchell, C. Clubb, A. Hopwood, J. Hughes, J. Nahapiet [1980] insist that accounting can no longer be represented as a set of techniques for the assessment of individual economic variables. Scientists declare a new perception of accounting as a larger, integrated and powerful mechanism of economic and social growth.

It is important to stress that changes in accounting are increasingly arising from the interaction between institutions that have social significance [Burchell et al. 1980]. It is explained that government regulators, professional accounting and other institutions set the tone for accounting innovations, as they are more open to the influence of political, social and economic pressures than directly business structures. At the same time, Western scholars have expressed regret at the small number of studies related to the identification of the social nature of the accounting theory and practice, and studies of interactions between the accounting system and the society.

In their publication “The Demand for and Supply of Accounting Theories: The Market for Excuses” Ross L. Watts and Jerold L. Zimmerman [1979] insisted that the world is dominated by normative theories, which is tracked in the formal approach to the development of accounting methodology. Traditional accounting theories, which are called regulations, are focused on prescription of regulated operations of accountants and are screened by stringent accounting standards. However, this one-sided orientation of research, as noted by Charles Horngren in his “Marketing of Accounting Standards” [Horngren 1973], is rather a product of political dependence than result of logical and empirical research, making accounting methodology lose its practical effectiveness.

These findings are also supported by practitioners. In particular, Watts and Zimmerman quote a conclusion from the annual report of the American Association



of Accountants, which states that “currently there is no single universal common accounting theory” [Watts and Zimmerman 1990].

However, in contrast or in addition to standard accounting approaches, there develop theoretical concepts that are intended to forecast and explain the nature of selection of certain procedures and accounting rules by accountants. These approaches have formed the theoretical basis of the modern positive accounting theory.

In their fundamental paper “Positive Accounting Theory: A Ten Year Perspective” Ross L. Watts and Jerold L. Zimmerman associate the onset of development of the theoretical platform of positive accounting theory with initiatives to use empirical research in accounting [Watts and Zimmerman 1990].

It appears that another positive catalyst for theoretical innovation is the concept of a firm’s contractual nature developed by Robert Coase [2007] and the neo-institutional economic theory further substantiated by him and subsequent authors.

Limits of correlation of positivist ideas in accounting with neoinstitutionalism as follows: positive accounting theory, similarly to the neo-institutional economic theory, draws attention to the firm’s contractual nature and attempts to position generally accepted sets of accounting procedures as part of “contracts” to manage it. That said, positivists assume that developers and users of information conclude an “agreement”, whereby the first provide the latter with corresponding sets of data according to certain rules.

Modern positivist researchers (a reference example is the book “Accounting, Organizations and Institutions”, edited by C. Chapman, D. Cooper and P. Miller) analyze the transformation of institutional mechanisms governing the field of accountants’ activities [Hopwood et al. 2009]. Positivist studies of these authors, as claimed by them, explore the ways in which accounting would fit not only in the ruling ideology, but also in the mechanisms that control the international economy and have social significance. Attention is focused on the relationship between accounting and the environment in which it operates [Waymire and Basu 2007]. Effects of groups developing international and regional standards that are reflected in texts of regulations on accounting are studied.

To some extent, Samuel DiPiazza and Robert Eccles can be considered supporters of the ideas of institutional theory and positive theory of accounting. In their book “Building Public Trust: The Future of Corporate Reporting” [DiPiazza and Eccles 2002] they raise the issue of socio-economic impact, influence of sociocultural psychotypes of accountants on their professionalism in preparing the financial statements, effect of the accounting profession on the prevention of financial disasters.

This certainly confirms new theoretical concepts of accounting, which is organized and operates not only by normative rules, but also by motives of people who set, distribute and implement these rules.

PRESENTATION OF BASIC FINDINGS

Addressing the problem of reform and development of accounting requires significant updating of its theories. Exploring the Western positivist trend of accounting theory, we saw that the theory of accounting can be developed on the fundamental platform of institutionalism as well. The more so as both institutionalism and the positive accounting theory are based on the philosophical positivist platform.

The combination of the basic provisions of the positivist theory of accounting with the institutional theory is motivated by several factors. First of all, the institutional theory is already a classic of modern economic thought. Not only it is able to explain the success or failure of various kinds of economic systems, including accounting – it can also identify factors and ways to overcome problems created by institutions in systems. It focuses the practice on changing of institutions to achieve desired results.

Besides, the institutional platform for changes in the accounting theory will be understandable to the general public in economic science. For profession, it is important that the image of accounting as a conservative part of the economics become the matter of the past.

Shaping the philosophical platform for the development of the institutional theory of accounting, we have made allowance of current trends and practices, and fundamental achievements of advanced scientific schools that explore and lead the progress of accounting from a “closed” information and technical system to an important phenomenon of national and global socio-economic spaces.

Figure 1 summarizes the basis of the hypothesis of our research: classical and modern regulatory accounting theories have shaped the basic nature of the perception of accounting as a cameral and economic “System”, while positivist and institutional theoretical innovations are to explain its today’s rise to the level of a socio-economic “Institution”.

The institutional theory of accounting substantiates the growth of accounting from one of the management functions to a more important and independent phenomenon in economics and society. The normative theories do not provide an explanation for the development of the socio-economic nature of accounting existing in practice; moreover, they are restricted to theoretical dogmas. Having applied the methods of analysis and synthesis to examine the contemporary phenomenon of accounting, we came to a conclusion that it meets all theoretical criteria of both the social and economic institution.



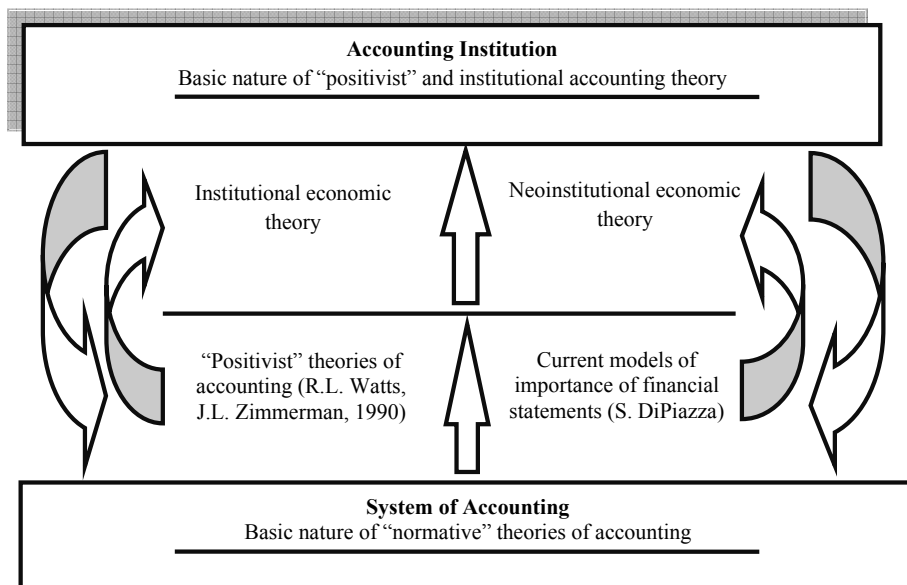


FIGURE 1. Theoretical components of the progress of accounting from the “System” to the “Institution” (hypothesis of the research)

Source: Own elaboration.

Figure 2 shows the basic criteria for institutions in these theories, each of which is fully consistent with the phenomenon of accounting.

Basic criteria for institutions in theories:	
<p>Sociology:</p> <ol style="list-style-type: none"> 1. Formation of relationships between people within the “economic society”. 2. Social practice is regular and long-term (perpetual). 3. Depersonalized system. 4. Regulatory and stable but complex practice subject to broad social control. 	<p>Economics:</p> <ol style="list-style-type: none"> 1. Maximization of utility of functioning. 2. Reducing uncertainty (through the formation of an information field). 3. Impact on economic phenomena. 4. Clear range of functions, tasks. 5. Complexity of the phenomenon – a set of institutions and organizational forms that have historically operated as a whole.

FIGURE 2. Conformity of the phenomenon of accounting to criteria of institutions in economic and social theories

Source: Own elaboration.

Moreover, the phenomenon of accounting meets all the characteristic features of social institutions as well (Figure 3). Therefore, we can say that accounting as a special activity, special phenomenon in the socio-economic space is a separate institution of this space.

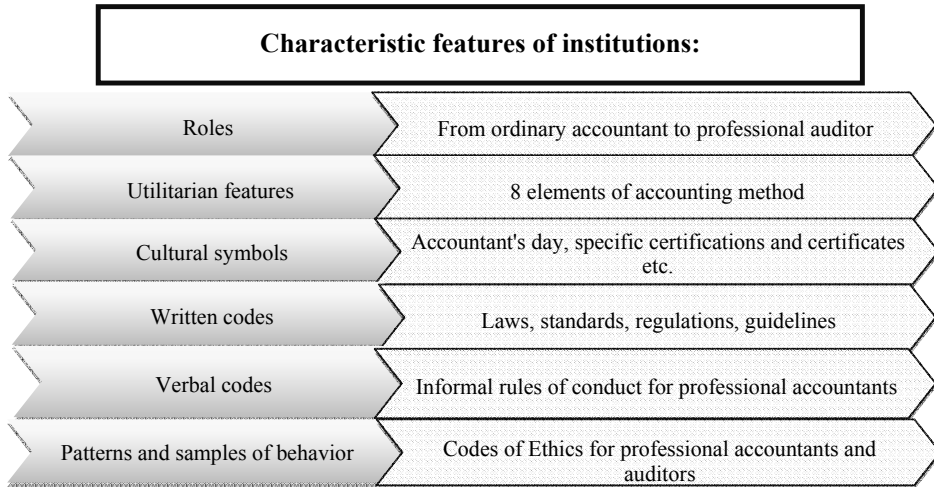


FIGURE 3. Conformity of the accounting to identification criteria of social institutions

Source: Own elaboration.

Scientific literature widely uses the term “institution of education”, “institution of justice” and others. Now it is time to explain and apply the concept of the “accounting institution”.

In social and economic theories the term “Institution” is a complex and multi-faceted phenomenon. Each scientific field of the institutional theory (“old”, “new” institutionalism, its various doctrines) complement and deepen the concept of the Institution. One of the most comprehensive and clear definitions is given by G. Hodgson, the founder of this theory: “institutions are simultaneously both objective structures “out there” and subjective springs of human agency “in the human head” [Hodgson 2003].

In simplified terms, “the model of social-economic institution” can be examined as a bipolar phenomenon. On the one hand, these are stable socio-cultural psychotypes of people involved in it, called in the theory “informal institutions” (“in human head”). On the other pole are *formal institutions* – so-called “rules of the game” that are formalized in legislation, codes and other adopted documents. According to the theory, the informal component is crucial to characterize the In-



stitution, to develop it. It is difficult to change and has the greatest influence on the overall condition of the Institution.

The interaction of these polarized components of the Institution forms certain *organizations* inside it (*institutional formations* “out there”). The success of the latter is based on maturity and mutual conformity of the formal and informal institution. Together, this is a single system that creates the social and economic institution. Subject to a balanced and mature condition of all components this Institution is successful, and vice versa.

Thus, the institutional economic theory explains the success or decline of certain countries in the global economy, certain institutions in the country. Accordingly, our proposed theory explains the effectiveness of accounting institutions in different countries, different economic systems.

The model of accounting institution (developed from the perspective of the institutional theory) also highlights “polarized” informal and formal components and organizations formed under their influence (institutional formations – Figure 4). The proposed Model classifies, establishes a hierarchy and interaction of all components of the Institution. Of course, the crucial role belongs to the component of an informal institution as stable socio-cultural psychotypes, first of all, accountants themselves as well as people who influence their work and performance (accounting information).

In this Model, the evolutionary impetus comes from an informal institution and through (or using) organizations (institutional formations) forms the “rules of the game” – formal institution (path I, Figure 4). With this approach, all components of the Institution (first of all, accountants) are ready for the new “rules of the game”. Under these conditions, the “rules of the game” will be observed. In the institutional theory this phenomenon is called “path dependence” – dependence on traditions, mentality, and stable socio-cultural psychotypes. That is what we use to explain the existence and differences of Anglo-Saxon, German, Arabic and other systems (institutions) of accounting.

On the other hand, the institutional theory does not reject the revolutionary impetus by stimulating the necessary development of the Institution through the adoption and planting of desirable “rules of the game” (path II, Figure 4). However, this path has to be weighed on the existing potential for changes in the informal component (its neglect explains the poor performance of accounting reforms in modern Ukraine). Therefore, a skillful combination of evolutionary and revolutionary approaches of the institutional model forms and provides efficiency of accounting policies of individual countries or economic systems. Thus, unlike the classical normative theories, the institutional theory of accounting creates a scientific basis to ensure effective reform and development of accounting through the use of knowledge on the state, hierarchy and interaction of all its components.

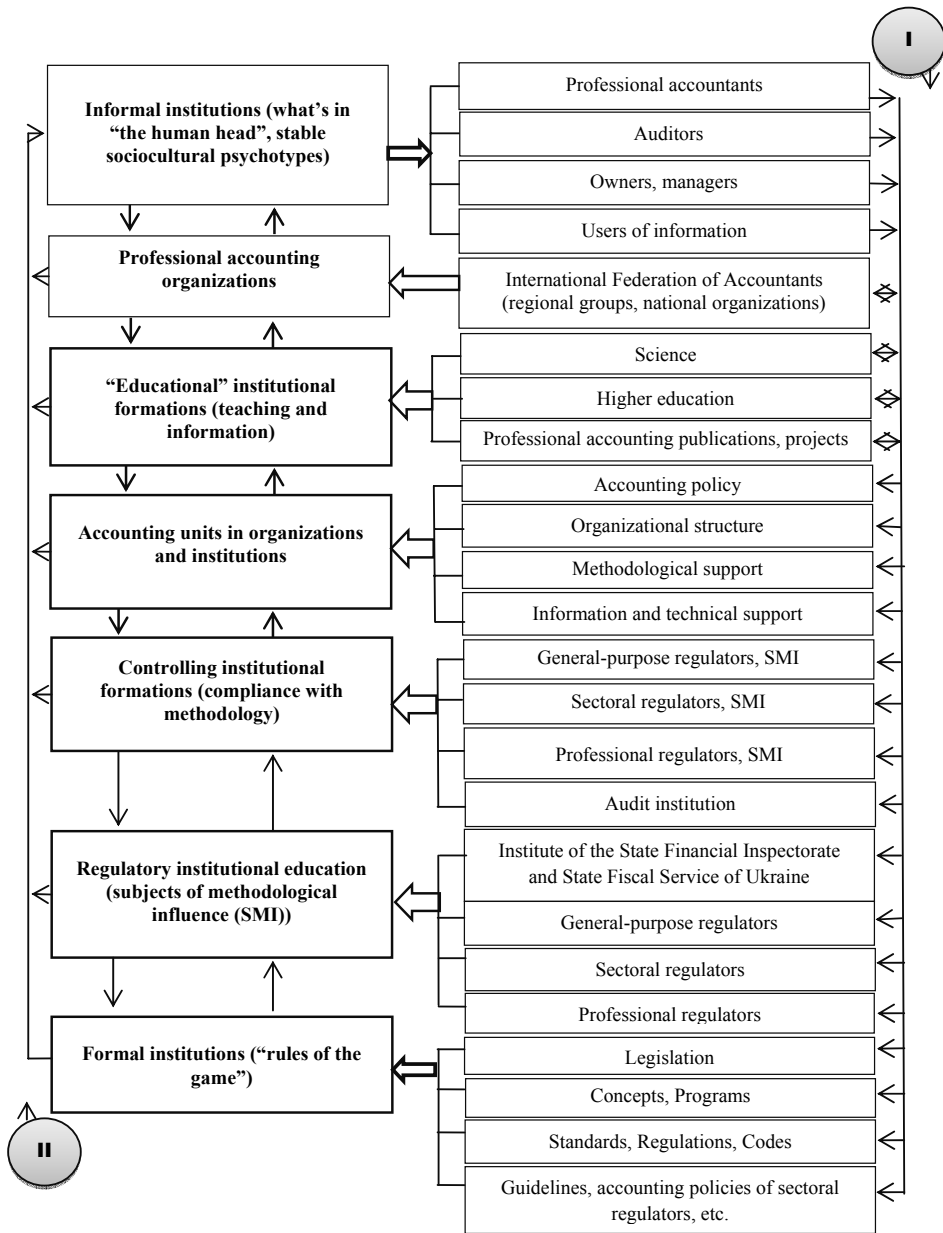


FIGURE 4. Functional model of accounting institution (classification, hierarchy and interaction of components)

Source: Own elaboration.



The new theory considers accounting activities not as a limited, “cameral-economic” or “normative and technical” System, but as a multifaceted public social and economic Institution, which, unlike the theoretical concepts of the “Accounting system”, is enriched by not only new, but also crucial organizational and social components.

Russian scientist YA. Sokolov divided the “Accounting system” into only three levels: methodological, technical and organizational [Sokolov and Paliy 1981] (methodical – rules of reflecting facts of economic life; technical – use of elements of method; organizational – interaction of accounting workers). Most Ukrainian scholars believe that components of the accounting system are its elements of method, registers, accounting forms, accounting policies etc., locked at the enterprise level.

At the same time, as early as in the 19th century a number of scientific accountants, such as J. Dumarchey, G. Cerboni, L. Gomber argued that the nature of accounting activities is broader than the mere order of entries in accounts and registers, that accounting is a social phenomenon and part of social life [Sokolov and Paliy 1981]. In today’s realities their arguments are even more justified by practice and economic theory.

In 1993, the renowned economist Stiglitz noted that the accounting system in the West is perceived as an integral part of the management mechanism in the market economy, ensuring representation of the diversity of corporate activities, and stressed the importance of professional and social organization of accountants in this mechanism [Stiglitz 1993].

Again, the institutional theory emphasizes: the crucial part of the Institution is always its informal component. When considering accounting as a “System”, previous theories did not consider this determining factor of accounting activities. Attention was not focused on the classification, hierarchy and interaction of a wide variety of organizational components of accounting. At best, the range of these components was expanded by state (normative and administrative) regulation.

Followers of normative theories may perceive our institutional innovations as certain enrichment of the contemporary essence of the Accounting system. However, this theoretical and practical enrichment essence of the phenomenon of accounting is extremely significant and important to examine accounting as an Institution rather than a System.

Of course, we do not deny the presence of basic system foundations of the organization of accounting on the macro- and micro-levels of management. Yet, for us it is more important that the phenomenon of accounting progresses from its closed subject and economic to social and economic plane, and thus is recognized in the theory as a socio-economic institution.

Life changes the perception of accounting, extending its constituents beyond corporations, beyond the organizational, methodological, technical and legal area to social, professional and psychological field. This increased quality of the components of accounting is explained only by the institutional theory of accounting – the theory, which, above all, positions its essence with the discovery and explanation of the phenomenon of accounting institution.

Therefore, accounting activities (accounting) are a social and economic institution that provides trust, understanding and regulation in the socio-economic environment through professional processing, presentation and interpretation of information about facts and processes in organizations (companies). In the narrow perception, accounting is an Institution transforming facts of economic life into the language of numbers using specific methods, rules (formal component) and professional skills and judgment (informal component), in order to ensure the understanding and regulation of all subjects of socio-economic space. In broader terms, accounting activities as the Institution generate a certain language (face) of business structures, government agencies, public and other organizations that keep records and provide important informational content in national and global socio-economic spaces. Thus, we prove that the phenomenon of the Institution encompasses the phenomenon of the accounting “System” (Figure 5).

Outwardly, it looks like the process of absorption. At the same time, institutionalization of the methodical, technical and organizational levels of the “System” occurs through improvement of their quality. This is due to a synergy of opportunities of a greater set of components in the “Institution” compared to the “System”.

The accounting institution is primarily characterized by the state of its informal component, its ability to influence the acceptance and compliance with the “rules of the game” through “organizations” (first of all, associations of professional accountants), to influence the effective presentation of economic activity in the society (combination I, Figure 5). This growth of theoretical concepts unveils new ways for the development of accounting. Its scientific and normative and legal components (“rules of the game”) are increasingly based on ideas, influence of professional environment that becomes more and more unified in organizational terms. On the other hand, the institutional theory presents the opportunity and justifies the necessity to use the ideology of “accounting engineering” and “accounting imperialism” in accounting policies of regulatory agencies, academic circles, and professional associations of accountants (combination II, Figure 5).

The UN Economic Commission for Europe connects engineering with innovative development of any activity. The practice of consulting and financial engineering is already scientifically proven in economic activity. The application of innovative technologies in the work of accounting and information units of modern advanced



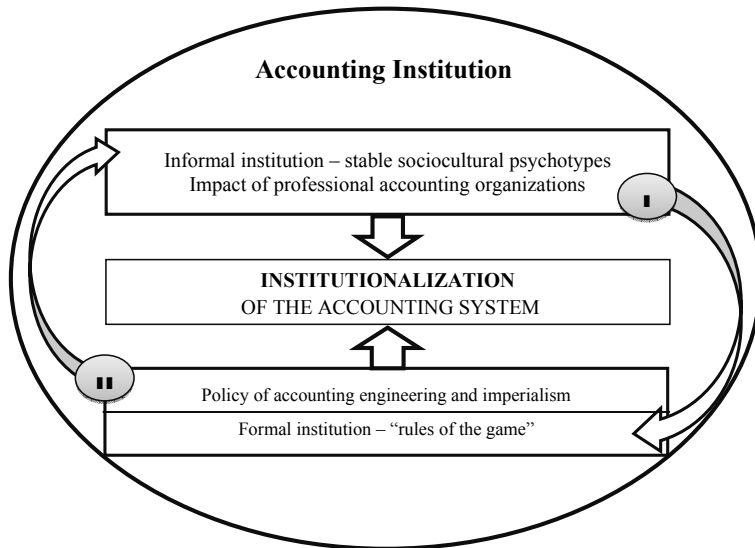


FIGURE 5. Transformation of the “System” into accounting “Institution”

Source: Own elaboration.

companies is nothing but accounting engineering. Thus, in the institutional theory we distinguish accounting engineering as the process of using of new methods and tools from related sciences and practices in the modeling and organization of accounting. Again, one cannot but notice this in practical accounting. Also, we are bound to announce the development of a new, engineering, theory of accounting management and a new theoretical framework of accounting in general.

The ideology and practice of accounting engineering can be explained within traditional theories (the “System”) as well. However, only the institutional theory of accounting reveals the nature of the synergy of all its components in the assimilation of innovations. We emphasize that the introduction of new technologies in information and accounting activities largely depends on the change of accountants’ perception of the functions and mission of our activity in socio-economic environment. The greater the proportion of professional accountants who will see themselves as managers of information flows instead of “computer accessories”, the stronger the informal part will encourage innovative development of the accounting Institution as a whole.

The potential of the accounting engineering policy in the field of science, education, impact of professional associations of accountants should be complemented by the policy of accounting imperialism. Similarly, to economic imperialism, already recognized by the science (practice of the economic theory’s expansion in related areas of social science, application of economic and mathematical methods

and models in sociology, political science, history, law and other areas), we interpret accounting imperialism as a practice of creation of offensive accounting theories (usually at the junction of related sciences), which extend the subject and functions of accounting to related activities (management, finance, information technology, etc.), thereby enhancing the status and position of accountants in the company and the Institution of accounting in socio-economic environment in general.

Therefore, the new theory is not a mere volatile change of “signs” in the accounting science. Emerging from the “System” or one of the functions of management, our activity grows to a separate important segment in the economic space – the socio-economic “Institution”. This occurs to reflect the demands of modern accounting practices and other challenges of the global economy.

CONCLUSIONS

Obviously, accounting activities have a strong need to review the fundamental reference points for further development. Changes in theoretical ideas are motivated by the need for adequate scientific response to the growing importance of accounting activities in today’s socio-economic space.

It is difficult to explain these processes, predict their development and, moreover, to provide evidence-based advice on their management within the framework of the classical theories (including interpretation of accounting as a “System”). The institutional theory of accounting addresses these issues. It reveals new opportunities and scales for accounting. Considering accounting activities as a socio-economic “Institution”, the new theory describes mechanisms for reform of accounting and maximum socio-economic benefits from such reform.

An intermediate summary of work in this area has announced by us in the relevant monograph [Zhuk 2013] and at the meeting of the Presidium of the National Academy of Agrarian Sciences of Ukraine on 27 November 2013.

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- INSTYTUCJONALNY TEORIA RACHUNKOWOŚCI: NOWE MOŻLIWOŚCI I RANGA ZAWODU

INSTYTUCJONALNA TEORIA RACHUNKOWOŚCI: NOWE MOŻLIWOŚCI I RANGA ZAWODU

Abstrakt. W artykule przeprowadzono ocenę procesów zmian we współczesnych teoriach rachunkowości analizując pracę badaczy w krajach rozwiniętych. Omówiono ponadto nową instytucjonalną teorię rachunkowości. Ocenie poddano przekształcenia działań księgowych w ramach funkcjonalnego zarządzania podsystemami w instytucjach społecznych i w przestrzeni gospodarczej. W artykule opisano składniki i procesy, które charakteryzują system rachunkowości przy uwzględnieniu wpływu państwa. Zaproponowano mechanizmy zarządzania procesami rachunkowości instytucji. Przedstawiono koncepcje klasyfikacji, hierarchii i współdziałania instytucji rachunkowości, inżynierii rachunkowości, imperializmu i teorii rachunkowości zarządczej.

Słowa kluczowe: teoria rachunkowości, teoria instytucjonalna rachunkowości, rachunkowości instytucji, system rachunkowości, inżynieria rachunkowości, imperializm rachunkowości.