

SWOT ANALYSIS OF THE ROMANIAN PUBLIC ACCOUNTING SYSTEM

CRISTINA SILVIA NISTOR¹

ABSTRACT. As in many other fields, the Romanian public accounting system before and after the adherence to the European Union is characterized by vast change. Under these circumstances, it is mandatory to conduct an organizational assessment through SWOT analysis in order to understand which are the strengths, weaknesses, opportunities and threats of the cash accounting system as a starting point in the public system's, and subsequently the accounting system's, process of transition to accrual accounting, adapted of course to the specific of our country. I consider the findings to be useful to all the users within the public accounting system which are thus capable to envision more easily the advantages, difficulties, benefits and shortcomings of the old accounting system against the new accounting system.

Keywords: public accounting system, cash accounting, accrual accounting, SWOT analysis

1. INTRODUCTION

Any type of change triggers difficulties and uncertainty. This is also the case for the Romanian public accounting system which before the adherence to the European Union was subject to a change process, many times accompanied by incoherence, instability and uncertainty. After the process and the adherence to the European Union were completed the situation became stabile and consequent. We wish to test this by conducting a SWOT analysis of the public accounting system in the two periods i.e. the period between 2002 and 2005 which represents the beginning of the transition from a cash basis system to an accrual basis system and the period from 2006 to present day which recognizes accrual accounting as the accounting organization system (Nistor C.S. et al, 2008).

Any system which allocates resources to strategic planning will want at some point to assess its strengths and weaknesses. When these are combined with a stocktaking analysis of the "opportunities and threats" of the system's external environment, one may say that a "SWOT analysis" is conducted: the assessment of

¹ PhD Lecturer, Department of Accounting, Faculty of Economics and Business Administration, "Babeş-Bolyai" University, Cluj-Napoca, Romania, cristina.nistor@econ.ubbcluj.ro

the current position in accordance with the strengths, the weaknesses, the opportunities and the threats. Its main objective is to facilitate structuring of information to ensure the best alignment between the external environment and internal situation (Mintzberg, 1994)

In fact, through this method the following questions are answered: “Where are we?”, “Where are we going?” and furthermore “How can we get there?”. The public accounting system’s strengths are its internal forces i.e. the values or factors that support its competitive advantage and offer stability, safety and coherence. The weaknesses are those factors or those trends which create obstacles for the development of the accounting system. They can come in different types such as: social, financial, regulatory, operational or other. These can be divided into Weaknesses that can be addressed on the short run, between 3 and 5 years, and Weaknesses which imply a longer time period and are more difficult to address. The Strengths and Weaknesses are considered internal or endogenous factors. The Opportunities and Threats are considered external or exogenous factors. The Opportunities are the external factors which endorse the development of the competitive advantage (Strength). The Threats are the tendencies adverse to external development which lead to the decline of the competitive advantage.

LITERATURE REVIEW

Stanford University's Albert Humphrey led a research project in the 1960s-1970s based upon the United States' Fortune 500. Humphrey led a research project which ultimately developed his Team Action Model (TAM) which is a management concept that enables groups of executives to manage change. SWOT was to have originated from his Stakeholders Concept and SWOT Analysis. It is common for such a prolifically cited piece of research not to have an original definitive publication as its centerpiece. The TAM approach is one of a number that are used by trainers around the World, although for us the crediting to Humphrey as the creator of SWOT cannot be supported. It is a myth supported by open access encyclopedias, and we need to be more objective. (*Tim Friesner, 2008*)

King (2004) also recognized that it was tricky to track down the origins of the acronym SWOT. He cites Haberberg (2000) as stating that SWOT was a concept used by Harvard academics in the 1960s, and Turner (2002) attributing SWOT to Igor Ansoff (1987). Koch (2000) considered the contributions of Weihrich (1982), Dealtry (1992) and Wheelan and Hunger (1998). Again whilst these are the commonly accepted views of thinkers on the topic of SWOT, even the common observer would recognize that Weihrich (1982) was not the originator of the concept but rather an innovator of it. As Koch (2004) comments he recognized that a series of SWOT/TOWS analyses had the advantages of a single arbitrary matrix. Wheelan and Hunger (1998) used SWOT to look for gaps and matches between competences and resources and the business environment. Dealtry (1992) considered SWOT in terms or groups and vectors with common themes and

interactions. Shinno et al (2006) combined SWOT analysis with an Analytic Hierarchy Process (AHP) which ranked and prioritized each element using software. Shinno et al (2006) do not really deal with the obvious limitations of SWOT.

A refocusing of SWOT was offered by Panagiotou (2003). He introduces a telescopic observations strategic framework which in effect maps strengths, weaknesses, opportunities and threats against his suggested acronym - telescopic observations. So, for example T=technological advancements, E=economic considerations, L=legal and regulatory requirements, etc. The most useful aspect of Panagiotou's article is that not only does he recognize the difficulty in finding the origins of SWOT, but he also manages to unearth some interesting alternatives. In contrast to crediting the tool to Stanford University's Albert Humphrey, SWOT is credited to two Harvard Business School Policy Unit professors - George Albert Smith Jr. and C Roland Christensen during the early 1950s. Later in the 1950s another HBS Policy Unit professor Kenneth Andrews developed its usage and application. All professors were specialists in organizational strategy as opposed to marketing. SWOT went on to be developed by the HBS during the 1960s until SWOT became the tool that we use today.

2. MATERIAL AND METHODS

A Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis was conducted, combining both quantitative and qualitative aspects of the public accounting sector's internal and external environment.

SWOT analysis is the basis for establishing strategy, the objectives of its policy and the implied activities when the analysis of the current situation and the relevance of the strategy for the identified need are assessed. The major component of ex-ante assessments is the valuation of economic bases, coherence and accordance to strategy. In this respect the adequacy of the proposed strategy is assessed along with its justification, coherence and potential risks as well as the arguments for establishing priorities, budget structuring, justification of the adopted theme, spatial and financial priorities, complementary of and synergy between priorities and proposed actions. Internal coherence is assessed as well in order to ensure the availability of financial resources within national or regional policy instruments. The assessment of estimated results and impacts analyzes the adequacy of indicators for the proposed objectives, if they are measurable, and their utility in future observations and assessments. The assessment of the proposed implementation system focuses on the quality of the implementation, of the surveillance and valuation commitment and their contribution to an efficient implementation of the new accounting system. SWOT analysis itself is a synthesis of the Romanian public accounting system's current situation's assessment, as it approaches all the key subjects distinguishing between thematic areas and issue prioritization.

SWOT variables include measurable scopes which shape the basis for establishing the strategy and planning of measures. Generally, the adopted strategy, the strategic objectives do not raise questions regarding the relevance of the identified issues, or the potential and defined needs within the analysis of the current situation.

In order to conduct an efficient SWOT analysis the following elements must be taken into account:

- ❖ SO type strategies which resort to all the advantages of the system in order to make complete use of the external environment's opportunities;
- ❖ WO type strategies which surpass the system's shortcomings (disadvantages) in order to make complete use of the external environments' opportunities;
- ❖ ST type strategies which resort to all the advantages of the system in order to avoid/mitigate the threats (dangers) of the external environments;
- ❖ WT type strategies which surpass the system's shortcomings (disadvantages) and avoid/mitigate the threats (dangers) of the external environments.

Comparative analyses have led to the decision of establishing a SO type of development strategy for the public accounting system which will comply at the highest possible level to the performance, synergy-complementary, efficiency, feasible and impact criteria. The established strategy addresses the question "How do we get there?".

The research method is quantitative with qualitative elements and it is based on the analysis of the allotment and uses mechanisms specific to SWOT analysis for public system, followed by the actual conduct of such an analysis and the identification of the strengths, weaknesses, opportunities and threats while comparing the two periods of the public accounting system's evolution i.e. 2002-2005 and 2006-present.

The remainder of the paper is structured as follows. First, we review similar defining elements of SWOT analysis, from theoretical point of view. Second, we introduce a comparative analysis of both public accounting systems, the subject of analysis. Third, we make the segmentation of public accounting system in defining stages of ante and post accession period. Fourth, we achieve effective SWOT analysis in each of two dissertated. Lastly, we discuss these results, outline our conclusions and posit some suggestions for future research.

3. RESULTS AND DISCUSSIONS

3.1 Brief history of the public accounting system's evolution

December 1989 represents for Romania the end of the communist period and the beginning of capitalism. The political, economic and social implications of this transition have been enormous. The fall of the communist regime has meant the opening of new directions in the Romanian accounting system, which started having access and knowing the tendencies at a global level.

In 2002, because of the Romania EU integration perspective, the public accounting reform and its harmonization with the European and international requirements becomes absolutely necessary. Thus the Public Finance Ministry had to reorganize the budgetary accounting by adding to cash flow accounting the accruals basis of accounting. This project is experimentally implemented in the first semester of 2003, simultaneously with the existing rules, by a number of 13 main chief accountants.

At the issuing of new regulations we start from the principle of accrual basis of accounting and the application of the Financial Regulation provisions afferent to the general budget of the European Union no. 1605/2002 and of the European system of accounts (SEC '95) regarding the moment of accounting registration of the economic-financial operations "on the basis of established rights, respectively at the moment of creation, transformation and disappearing/annulment of an economic value, of a receivable or of a bond".

From an accounting point of view this has to generate the long wanted harmonization between public institution accounting and economic entities accounting. The advantages are important for both the accounting specialists which end up using a common language facilitating better knowledge of the system, the possibility of taking over, transformation, analysis and assessment of some similar operations, events or phenomena which take place within patrimonial units, no matter their nature, as well as for the external users which can assimilate more easily the accounting information and even more, can compare it with the one afferent to other similar institutions or not, according to the analysis carried out.

We can state that the year 2002 was essential for the evolution of public accounting. Major changes start now which will finally determine the shift from cash based accounting to accrual based accounting.

The year 2006 marks at a national level the implementation of the accrual based accounting system in all Romanian public institutions. It is an extraordinary progress for the public sector that follows the World tendency. We can state that even if the course of the Romanian system of public accounting was tough and long, through all these changes, the aim is a positive influence on the Romanian public accounting evolution compared to the European and international one, causing a more multifaceted meaning to the role of accounting as a source of information needed by both internal and external users.

This need for a common language through a unique set of accounting standards was born at least because of the following reason: the whole international financial community recognizes this need; it is a wish shared by all who prepare, examine or use financial statements; it contributes to the assurance of a common basis for accounting and reporting in all the countries, which generates a better and more efficient financial analysis of entities; it contributes to costs reduction because accountants, auditors, financial analysts, investors, and regulatory organisms do not have to convert and reconcile the financial statements from one set of standards to another.

In conclusion, the new public accounting system is based on the European Directives, European accounts system (ESA 95). There accounting and disclosure requirements according to International Public Sector Accounting Standards (IPSAS) are also taken into account.

3.2 Cash accounting versus accrual accounting

The change reform of Romanian public accounting system marks the capitalist period. The transition is realized from the cash basis accounting system to the accrual basis accounting system.

The introduction of accrual accounting internationally is defined by some authors as a reform of financial management and accountability (Scott, McKinnon and Harrison, 2003). Another name was „new public financial management” and was aimed at significant changes concerning the purpose, scale and style of public sector administration and activity (Guthrie et al., 1999 quote by Windels and Christiaens, 2007). The scope was for financial statements of the government or of a public organization to become more easily understood and more extensive through accounting – an important management tool. (Spathis and Ananiadis, 2004).

In Europe, the new financial regulations created a new legal framework regarding the financial management of the European Union’s budget. The European Commission, in order end the transition to accrual accounting, asked for two types of accounts: budgetary accounts, designed for the public authority and based on the concept of cash and general accounts, based on accrual accounting (Spathis and Ananiadis, 2004). Many studies analyzed the adoption of new forms and techniques of accounting and critically evaluated these changes in countries from Western Europe. (Pallot, 2001; Ellwood, 2003 quote by Windels and Christiaens, 2007).

In Romania, at the beginning of the capitalist period (1989-2001), public institutions are the image of cash basis accounting system, and the economic entities are the image of accrual basis accounting system. Comparatively, the situation is presented in Table 3 “Differences between the cash accounting system (public institutions) and the accrual accounting system (economic entities)”.

Table 1.

Differences between the Cash Accounting System (Public Institutions) and the Accrual Accounting System (Economic Entities)		
NOTION	CASH BASIS PUBLIC INSTITUTIONS	ACCRUAL BASIS ECONOMIC ENTITIES
ACCOUNTING SYSTEM	Recognizes the transactions and other events at the moment of collection or payment.	Recognizes the transactions and other events at the moment of their occurrence and these are registered in the financial statements of the period to which they refer.

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NOTION	CASH BASIS	ACCRUAL BASIS
RESULT OF THE EXERCISE	PUBLIC INSTITUTIONS It's a budgetary (financial) result shown based on the difference between the cash received and the cash paid.	ECONOMIC ENTITIES It's a patrimonial result, containing the unmet obligations and unpaid debts.
ACCOUNTING NORMALIZATION	All economic entities and the accounting profession comply with regulations elaborated by a state organism.	All economic entities and the accounting profession comply with regulations elaborated by a state organism.
ACCOUNTING INFORMATION USERS	The state acts as the main user of accounting information, this being structured in such a way that exclusively suits the state	Managers in the decision making process; Present and potential investors; (Financial) Staff/Creditors; Suppliers (commercial creditors); Customers (commercial debtors); The Government and public institutions; the public
INTERNATIONAL ACCOUNTING STANDARDS	They are not assumed	The implementation of international accounting standards is being generalized for all large enterprises
ACCOUNTING STATEMENTS	Balance sheet, Budgetary Implementation Account, Budgetary Round-up Analysis Report	Balance sheet, Income Statement, Accounting policies and Explanatory Notes
MANAGEMENT AND ACCOUNTING MANAGEMENT	In double party (excepting village halls which run their accounts/books in single)	In double party
THE GENERAL CHART OF ACCOUNTS	Drawn up in 1984 with different symbols than the ones used by economic entities	Updated in 1994 through the adoption of the French accounting system, with different symbols than the ones used by public institutions.

3.3 SWOT analysis of the public accounting system between 2002 and 2005

Globally, the reform on accounting in the public sector is a component of the economic reform worldwide, based on neo-liberal principles like: anti-inflation monetary policy, fiscal discipline at the macroeconomic level that will lead to balanced public budgets and microeconomic reforms for free trade and extension of the business sector (McKinnon, 2003 quoted by Elwood and Newberry, 2007). All these are used in order to reduce the government's extent and power while developing the business environment. Moreover, because after a long post war period of governments'

expansion that peaked between 1970 and 1980, the relatively large dimension of the public sector in the OECD member countries was seen as one of the causes for economic growth reduction in those countries (Elwood and Newberry, 2007).

According to the reports published by the Organization for Economic Co-operation and Development (OCDE), the European Union Council's decision from Helsinki in 1999 to start the negotiation process for Romania's integration in the EU in 2007, was the starting point of the changes carried on in the public institutions' management system. Thus the efforts to accelerate the economic, social and political convergence to the EU structures became indispensable through the transfer of the „acquis communautaire” into the internal legislation, and also by implementing these legal measures.

This interval is characterized by a cash basis accounting system with incipient elements specific to accrual accounting. These elements were imposed as a result of the Ministry of Public Finance's obligation to restructure the budgetary accounting by supplementing the cash flow accounting with accrual accounting (e.g. the reevaluation and amortization of the public institution's assets, setting up impairments and other elements that define accrual accounting).

SWOT analysis ultimately highlights the advantages, disadvantages, opportunities and threats of the public accounting system between 2002 and 2005, according to Figure 1 “Strengths and Weaknesses of the Two Public Accounting Systems 2002-2005” and Figure 2 “Opportunities and Threats of the Two Public Accounting Systems 2002-2005”, herein.

3.4. SWOT analysis of the public accounting system between 2006 and present day

In the context of ample transformations, a series of international publications like General Trade and Accounting or Bulletin of Accountants analyzed the post communist evolution of Romanian accounting, showing the significant moments of its transformation within the international and national context of their yielding. Calu D. (2005) defines this matter as the starting point of the Romanian accounting system's openness towards the international reality. The completion of these transformations sighted the reach of the European accounting system's level, based especially on accrual accounting having as a support the International Public Sectors Accounting Standards (IPSAS). Implementing the new standards implied simplifying the processes, increasing the productivity level and decreasing the operational costs.

This period highlights the accrual accounting system with its features specific to public institutions (e.g. maintaining the budget rendering account whose content keeps elements specific to cash accounting, showing paid expenses and cashed incomes).

SWOT analysis ultimately highlights the advantages, disadvantages, opportunities and threats of the public accounting system from 2006 until present, according to Figure 3 “Strengths and Weaknesses of the Two Public Accounting Systems 2006-Preset” and Figure 4 “Opportunities and Threats of the Two Public Accounting Systems 2006-Present”, herein.

FIGURE 1 – STRENGTHS AND WEAKNESSES OF THE TWO PUBLIC ACCOUNTING SYSTEMS 2002-2005 STRENGTHS

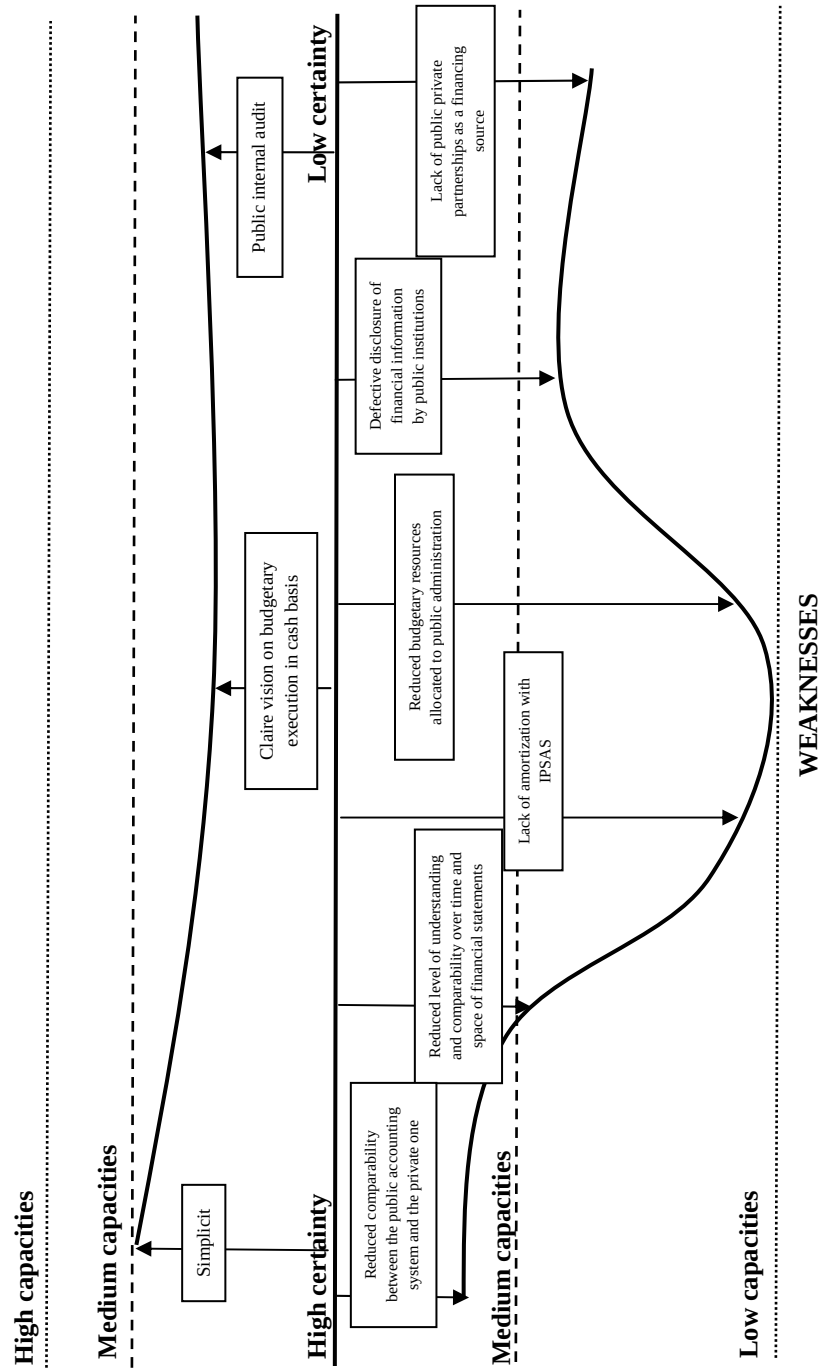


FIGURE 2 – OPPORTUNITIES AND THREATS OF THE TWO PUBLIC ACCOUNTING SYSTEMS 2002-2005

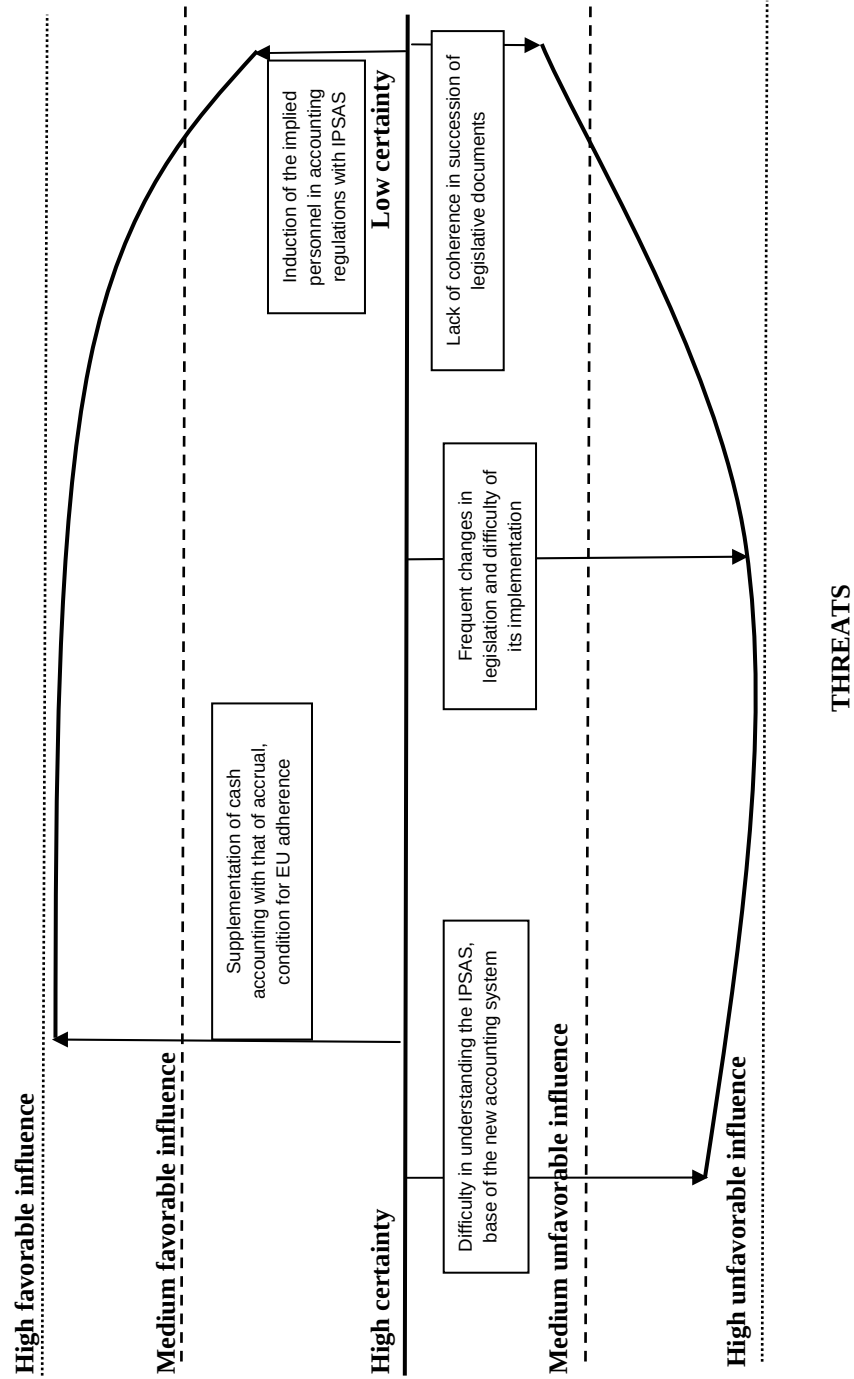


FIGURE 3 – STRENGTHS AND WEAKNESSES OF THE TWO PUBLIC ACCOUNTING SYSTEMS 2006- present

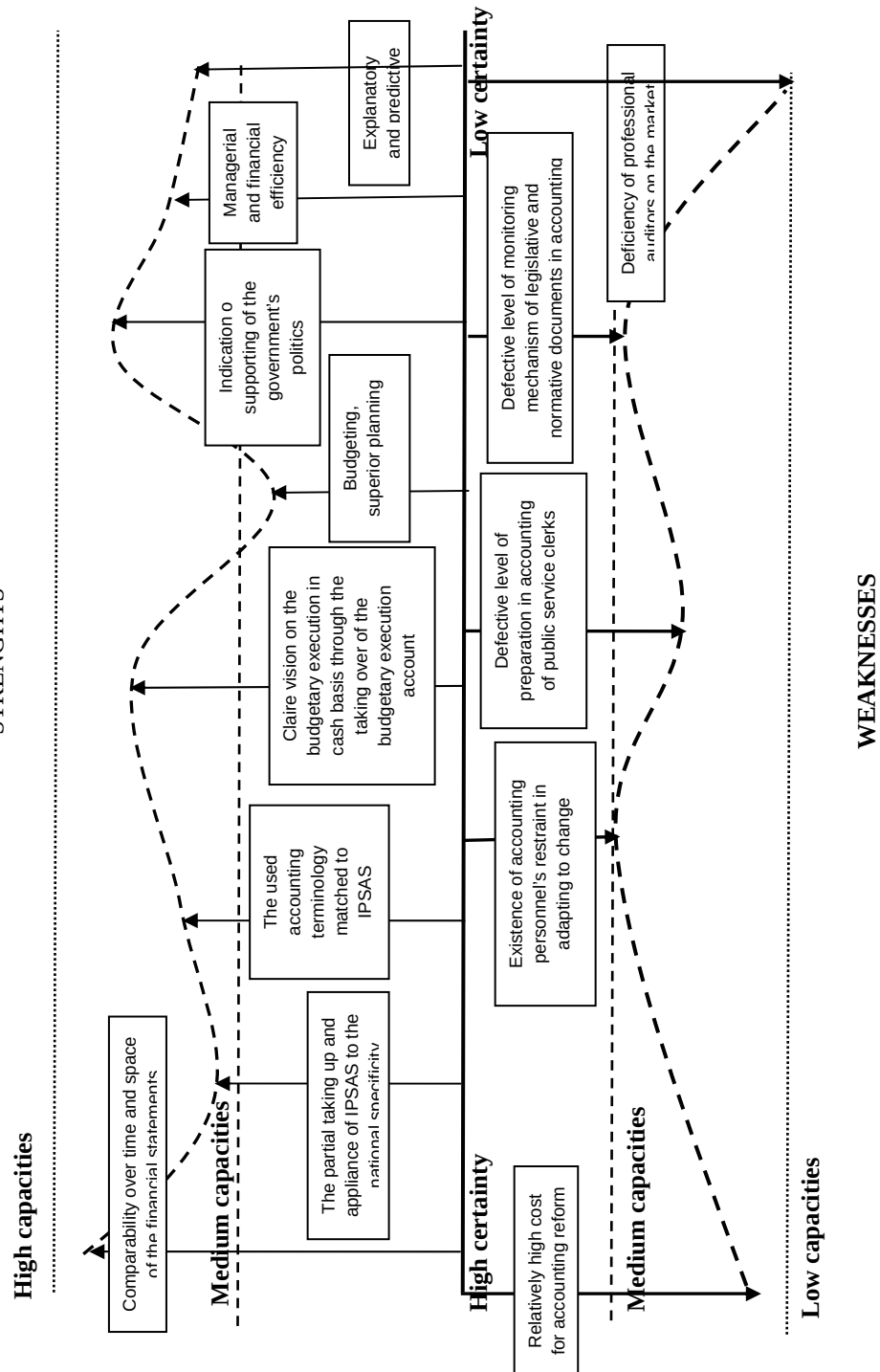
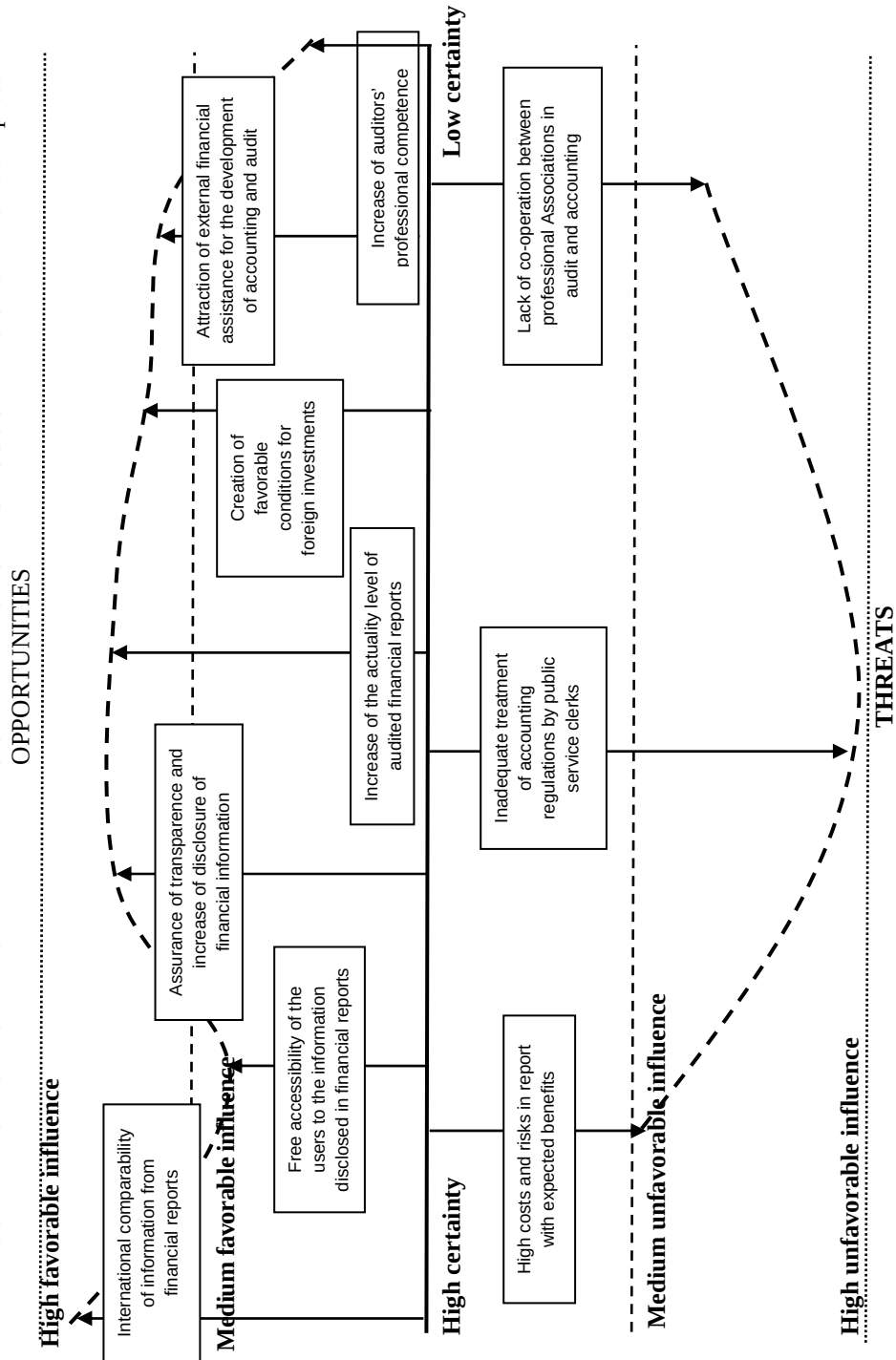


FIGURE 4 – OPPORTUNITIES AND THREATS OF THE TWO PUBLIC ACCOUNTING SYSTEMS 2006 –present



4. CONCLUSIONS

Basically, the SWOT is an acronym for the strengths, weaknesses, opportunities and threats for a public institutes. The strengths, weaknesses are the resource advantage and the inadequacy or paucity respectively in one or more resources relative to competitors. The opportunities and threats are respectively complimentary and adverse or impeding circumstances in the institute's external environment. The SWOT analysis is considered as a structured approach that helps strategists to systematically analyze the issues that may affect the fulfillment of their vision, mission, goals and objectives. In other words, the SWOT analysis is a convenient and concise way to assess past, present and future data to identify internal strengths, and weaknesses and external threats and opportunities. (Pearce II and Robinson Jr. (2000), Rabin et al (2000), Macmillan and Tampore (2000)).

The comparative analysis of the two periods shows that the analyzed elements focused on identifying the two accounting systems specific to the analyzed time periods (cash basis versus accrual basis), regulatory accounting aspects along with the influence of the International Public Sector Accounting Standards (IPSAS) which started to be known and implemented in 2002 once Romania's pre-adherence agreement with the European Union was signed.

We wish to make use of this SWOT analysis in future research as we are looking forward to study the possibility of implementing the Balanced Score Card concept in the Romanian Universities. This is a new concept for the Romanian public university system and we consider that it will bring a significant qualitative increase.

Romanian state universities are being transformed more and more into entrepreneurial companies, in which the current business range is mainly linked to the teaching and research areas. In this context, we believe that the usage of a BSC system is an important step made in the assistance of the Bologna reforms. The BSC instrument should be implemented using all three of its dimensions: a performance measuring system, a strategic management system and a communication tool that involves all academic stakeholders in a new culture of raising awareness to strategy and quality. By "academic stakeholders" we mean students (clients of the higher education institutions), academic and management staff, institutional leaders and the public community.

In this sense, the 9 steps for success methodology will be used. The first step in developing a performance system BSC will aim at: leading an organizational assessment (usually through a SWOT analysis), defining the strategic themes, choosing the perspectives and establishing the objectives, developing a strategic map of the University, defining the performance indicators, developing the initiatives. The second step of the BSC implementation will aim at: gathering and communicating information related to performance, using the scorecard information in order to assess and improve performance.

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