Advances in Accounting, incorporating Advances in International Accounting 31 (2015) 150–164

Contents lists available at ScienceDirect

Advances in Accounting, incorporating Advances in International Accounting

journal homepage: www.elsevier.com/locate/adiac

Management accounting practices before and during economic crisis: Evidence from Greece

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ARTICLE INFO

Available online 3 April 2015

Keywords:
Economic crisis
Financial crisis
Management accounting practices
Greece

ABSTRACT

Economic crisis might affect management accounting and the use of its practices within the organizations. The purpose of this study is to investigate the impact of the Greek economic crisis in management accounting practices in the Greek industry and to examine shifts in trends in different accounting techniques' panels in usage and importance before (2008) and during (2013) the country's economic crisis. Empirical data were collected from 301 firms belonging to various Greek industries, which fully completed and returned a structured questionnaire regarding the perceived importance and actual usage of various management accounting techniques for these two periods. Sixty-two techniques were incorporated in the survey and were further subdivided into 5 panels: (a) cost accounting, (b) planning–budgeting, (c) decision support systems, (d) performance evaluation, and (e) strategic analysis. Factor analysis was employed to summarize and reduce the 62 variables into fewer factors for both surveys. The survey revealed that the importance and the usage of ABC systems, planning, strategy, and SMA techniques increased during the crisis, while at the same time the level of importance and usage of traditional cost accounting techniques was decreased. Budgeting techniques are still widely used.

1. Introduction

One of the most important features of the current economic environment is the global economic crisis. Although there exists a definitional ambiguity as of what consists an economic crisis (Waymire & Basu, 2011), it is widely accepted that today's major financial crisis is the accumulated outcome of a series of parameters, whose causes started in 2006.

Crescenzi (2008) states that the loss of investors' trust in the subprime mortgage segment in the USA led to a liquidity crisis. Although it was initially believed that the housing market triggered the crisis, performed research indicates that the banking system was already crisis-prone and sensitive, as it was subject to the following factors: low debt cost, US financial policy concerning complicated, and leveraged banking contracts and exposure of foreign banks—predominantly UK—to "toxic" products. A number of stateside companies specializing in housing loans and asset securitization were showing signs of entering a downward spiral, leading to a considerable number of them declaring bankruptcy. Litsis (2009) highlights the financial losses as experienced by Lehman Brothers resulting in their final collapse and allowing the spread of the financial crisis. On the other hand, Kapitsinis (2011) argues that the following factors were of predominant influence in triggering a major recession:

1. level of development
2. overdependence on the financial sector
3. applied politics, as a result of the accumulation of even higher capital in a global environment

Nevertheless, this new economic environment imposes the need for adaptation of management accounting practices to meet the dynamics of the markets. In the past decades, new management accounting techniques have emerged, which focus not only on financial information but also on non-financial information to give a strategic scope to a company's decisions. In the past, many studies have evaluated the extent of use of these management accounting practices in various settings, as well as the level of sophistication of management accounting practices in the firms under study (e.g., Amat, Carmona, & Roberts, 1994; Armitage & Nicholson, 1993). In recent years, various studies assess the level of employment of these management accounting practices in response to the changing business environment, such as the rapid developments in information and communication technology, the development of computer-based production systems, the integration of smaller firms into larger ones, etc. (e.g., Mat, Smith, & Djajadikerta, 2010). The relationship between management accounting (MA) techniques and economic crisis has also been reported (Arnold, 2009). The question of whether accounting contributes to making an economic crisis more likely or more

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http://dx.doi.org/10.1016/j.adiac.2015.03.016
0882-6110/

severe or whether weak accounting is a result of an economic crisis still remains unanswered (Waymire & Basu, 2011). Generally, it is undeniable that the crisis has had, and continues to have, implications for management accounting (Van Der Stede, 2011). As Arnold (2009) mentions, the magnitude of the financial and economic crisis calls for a fundamental reassessment of accounting research.

In the relevant literature, there exists empirical evidence in the area of financial reporting and financial analysis and their relation to the economic crisis (e.g., Boubakri, Guedhami, & Mishra, 2010; Iatridis & Dimitras, 2013), but to the best of our knowledge, there has been limited research of the effect of the economic crisis in management accounting. To this end, Van Der Stede (2011) offers some reflections on opportunities and challenges for management accounting research in the wake of the recent financial crisis. The present work responds to these reflections and offers some insights in management accounting practices in the current economic environment.

The reasoning behind the selected period of time under investigation is that the economic crisis offers opportunities for research that are not present in times of "normal" change (Van Der Stede, 2011). Moreover, the relevant literature offers many interesting similar examples of the interactive use and usefulness of management accounting practices in management accounting research.

1.1. The Greek economic crisis

The global financial crisis had at first not left Greece unaffected, even though the initial effects were relatively mild. This was related to the relative lack of connection of the Greek banking system to the American and British systems and to the lack of substantial investments of Greek financial institutions in "toxic "financial products (Kotios, Pavlidis, & Galanos, 2011). In 2009, the Greek budget deficit and debt rose to extreme levels and subsequently borrowing spreads increased significantly. As Kotios et al. (2011) mention, this was exploited by speculators in securities and currency. However, performed research reveals that Greece's current financial situation is primarily the result of financial mismanagement and unjust taxation. The study conducted by Polito and Wickens (2011) shows that indeed "…the debt problems of Greece are long-standing and are not due to the recent recession."

Nevertheless, in 2010, Greece requested public funding from the IMF and the EU Council; finally, in May 2010, the country was granted a loan of €110 billion (€80 billion from 15 EMU countries and €30 billion from the IMF). With the fear that there might be contagion effects, the Eurozone created a European stability Mechanism, which would secure financial stability of the Eurozone. The adjustment program developed for Greece has taken the form of a memorandum of understanding (MoU), subject to periodic reviews (European Commission, 2010; 2011). Taking into account the background of the Greek economic crisis and for the purpose of this study, the recession in Greece has been split into two distinct periods:

- the first, covering the period from August 2008 to May 2010, when the first signs of the crisis were observed, and
- the second from May 2010 continuing until present, when Greece officially entered a Loan Facility Agreement (Funded by IMF and the European Council-15 EMU countries)

The severity of the country's economic crisis means that Greece is particularly pertinent to the examination of the effect of the economic crisis in management accounting in firms. Greece was undergoing a growth phase, especially after the hosting of the 2004 Olympic Games in Athens; however, after 2008, the country's GDP dropped dramatically in line with other developed countries in the Eurozone (European Commission, 2010).

It is expected that relevant empirical research as far as the examination of MA techniques in actual usage and perceived importance is concerned has been conducted in other settings, developed or developing countries or industries (e.g., Abo-Alazm Mohamed, 2013; Hussain & Gunasekaran, 2002).

The purpose of this study is to fill the gap in the relevant literature as regards the effect of the economic crisis in MA techniques implemented by companies.

We investigated the perceived importance and actual usage of MA practices before and during the country's economic crisis by examining two relevant questions:

1. Are there any differences on perceived importance and actual usage of MA practices before and during the economic crisis?
2. Is there any association between the perceived importance and the actual usage of MA practices before and during the economic crisis?

In particular, this study performs empirical research and examines any statistical significant differences before and during Greece's economic crisis in the actual usage and perceived importance of MA practices in firms.

This study extends prior research in several ways. First, it adds to our understanding of the use and usefulness of particular management accounting techniques within the context of economic recession at two points in time (before and during a crisis.). It fills an existing empirical gap, as far as the effect of the recent economic crisis in the management accounting function within the firms is concerned. Up to date in the relevant literature, several research papers in management accounting in various countries (i.e., Abo-Alazm Mohamed, 2013; Chenhall & Langfield-Smith, 1998), and different settings have been presented. Comparisons have been made between management accounting practices used in two countries (i.e., Angelakis, Theriou, & Floropoulos, 2010; Israeli, Mohsin, & Kumar, 2011) or in a single industry (i.e., Pavlatos & Paggios, 2009). This study presents the diverse nature of the various management accounting tools used by firms before and during a country's economic crisis. The same firms were considered in these two periods of economic activity. To the best of our knowledge, this is the first research effort that has been attempted within this scope. On the contrary, there exists similar research that examines the effect of the economic crisis in financial analysis or financial accounting (e.g., Boubakri et al., 2010).

Furthermore, our analysis supports anecdotal evidence from prior research on a time-delayed increase in interactive use of management accounting systems (MAS) in times of externally induced crises. Thus, it expands the limited knowledge about the change of MAS in organizations facing an economic crisis. We can therefore put forward evidence to answer Hopwood's (2009) question of whether uniform patterns of MAS change can be observed in such times.

Methodologically, the contribution of this study is the inclusion of contemporary SMA practices that have not been incorporated elsewhere; other research papers investigate the role of only a few management accounting practices. Consequently, our study constitutes a holistic approach of all management accounting practices that can be used by a firm, therefore representing a measurement tool of all these practices. This study can also be seen as constituting an overdue inquiry into the validity of viewing management accounting practices as a coherent empirical construct. Furthermore, this study demonstrates the way contemporary MAPs, such as ABC and SMA tools that are implemented in a business environment are affected by recession. Most studies, as far as we know, have been applied in different environments of economic activity, such as countries under conditions of economic growth. Finally, this research enhances the understanding of management accounting practices among firms in Greece.

1.2. Literature review

In the past few decades, new management accounting practices have emerged in order to meet the growing needs of the larger firms,