



## Accounting tradition in Denmark (cont'd)

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### Accounting and business economics after WW II

After World War II there was a period of adjustment to the new world order. The US decided that it was necessary to assist European reconstruction directly by giving aid, and in 1947 what became known as the 'Marshall Plan' was implemented. Although Denmark emerged relatively unscathed from the war, the country did receive aid, and this was to have a direct effect on the development of accounting and business economics field from the late 1950s onwards, in particular through the work of Palle Hansen<sup>2</sup>.

In 1954, Palle Hansen was appointed by the Ministry of Trade's Productivity Committee to lead a Danish team on a 6-week visit to the US. This Marshall Plan-funded visit to the US seems to have reinforced the post-war tendency to look to American rather than German literature for inspiration. The objective of the study visit was to conduct technical studies of the cost accounting systems and budget control methods applied by American corporations and, against this background, to present a report aimed at providing Danish manufacturing companies with inspiration on how to handle these issues, and thus enhance efficiency in Danish industry.

When the trip was organised, it was generally acknowledged that Danish industry only to a very limited extent had started using budgeting and costing methods. One of the subjects which especially required study was the function and required educational background of the 'controller'.

Hansen was particularly influenced by the then ongoing debate on the relative benefits of full costing and contribution margin analysis. He became convinced that the contribution margin method was the way forward. On his return to Denmark from the US, he

immediately began organising courses in the contribution margin method for both accountants and managers, although it was some time before he began to write books and articles on the subject. His courses were based on the philosophy that traditional cost accounting models were too sophisticated for most Danish businesses, which by international standards were fairly small. His aim was to make accounting systems more flexible in order to enable better control of costs and profitability in companies. At the same time, they should build on principles in line with those of managerial economics.

In addition to having an important role in management accounting, Hansen also became a dominant figure in financial accounting. Following the approach he used in management accounting, he advocated that the contribution margin method should be used in financial accounting. So through his efforts, the contribution margin principle became generally used in the preparation of both cost and management accounts and annual financial statements. This changed however, with Denmark's membership of the European Community, and following the implementation of the 4th Directive through the Financial Statements Act of 1981, the contribution margin method could no longer be used for financial statements (Elling & Hansen, 1984). According to Elling & Hansen, this change caused considerable problems, as the introduction of the absorption costing principle was both cumbersome and costly, since most Danish companies had no experience in allocating fixed production costs by functions and products.

### Towards internationalisation

The most recent period from around the 1980s has thus been characterised by internationalisation of a more intensive kind. In the old days, foreign ideas in foreign languages were brought to Denmark by professors, who then translated and worked on their imported accounting knowledge, relating it to

existing Danish knowledge in order to refine and contextualise it. The accounting knowledge was then served for local consumption by accounting students and the country's academic institutions and by commerce and industry in general through articles in Danish and various forms of presentation and consultancy. Today, the increasing impact of internationalisation has made this import-driven model more or less redundant.

Academics have changed gradually from being mainly orientated towards teaching students and practitioners to researching to produce knowledge for publication in international peer-reviewed journals. In many cases what is expected is production of knowledge that has a certain degree of universal validity. International publications were needed not only by individual academics, but also by their universities as the age of international evaluations and accreditation of learning institutions dawned. The business economics context in which accounting flourished in the mid-20th century is not at the moment of great interest, except in terms of education. Individual subjects like accounting have their own international research communities, and knowledge develops in channels, which means that students are often left to make their own connections.

In the international world of research, Danish academics link up with international colleagues to produce international articles. Networks of researchers develop across boundaries. Practitioners of management accounting find themselves using standard accounting packages of varying levels of sophistication. In teaching, textbooks on management accounting and information systems in English have to some extent challenged and replaced textbooks in Danish.

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However, there is still a need for the process of translation and adaptation of foreign management accounting knowledge into Danish language and context, whereas the Danish management specialties as developed by people like Palle Hansen and Vagn Madsen are becoming somewhat less important. Perhaps an export drive is needed, for they may be able to add new insights to the current international debates in accounting.

## Further reading:

Elling, J.O., & Hansen, C.K. (1984). EEC Accounting Harmonisation: Implementation and Impact of the Fourth Directive. In S. J. Gray, A. G. Coenenberg (Eds.), *E.E.C. accounting harmonisation*, pp. 29-42, Amsterdam: North Holland.

Israelsen, P., Andersen, M., Rohde, C., & Sørensen, P.E. (1996). Management Accounting in Denmark: Theory and Practice. In A. Bhimani (Eds.), *Management Accounting: European Perspectives* (pp. 31-53). Oxford: Oxford University Press.

Loft, A., J. Mouritsen & C.Rohde (2012). Accounting and Business Economic In Denmark. In Y. Biondi & S. Zambon (eds.), *Accounting and Business Economics: Insights from National Traditions*. Routledge, pp. 201-223.

Näsi, S. & Rohde, C. (2007). Development of Cost and Management Accounting Ideas in the Nordic Countries. In C. Chapman, A.G. Hopwood & M.D. Shields (eds.), *Handbook in Management Accounting Research*, Vol. 2, pp. 1091-1118.

<sup>1</sup> This article builds directly on research that I have done together with my colleagues Anne Loft and Jan Mouritsen, to whom I am grateful. I have also found inspiration in earlier work that I have done together with my Finnish colleague Salme Näsi as well as my Danish colleagues Michael Andersen, Poul Israelsen and Poul Erik Sørensen. However, I personally take full responsibility for any mistakes and misinterpretations in this article.

<sup>2</sup> Other important individuals who should be recognised for their contributions to the development of management accounting at the time were the two professors Eric Schneider and Vagn Madsen from Aarhus University. Although both of them have made important contributions to the literature in the field as well as to their students, neither of them has ever had such a direct influence on practice as Palle Hansen.

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