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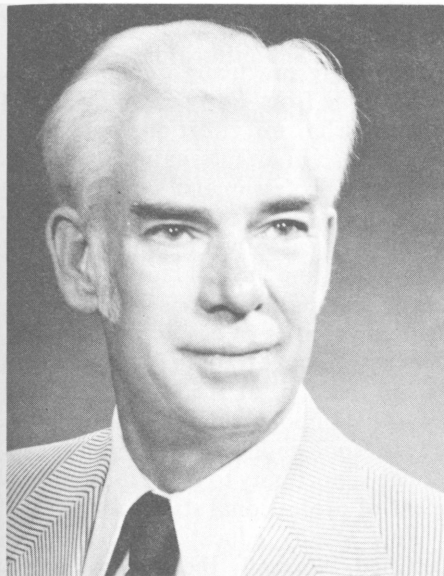
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Accounting in the Third World



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Politicians from King Tutankhamen to the Democratic party have been prone to attribute national greatness solely to their guidance. Kings, queens and imperial presidencies notwithstanding, if the native topsoil is fertile or covers rich mineral deposits below, if the climate and terrain are conducive to activity and if labor power is available, then the country is almost bound to become productive assuming that business acumen also is present, either indigenously or imported. If the productivity is channeled to serve the interests of the natives rather than exploit them, then the nation will be propelled into a happy economic condition. Emerging nations of the Third World have discovered that they must develop native business expertise to augment their vigorous patriotic fervor.

The study of history supports the thesis that the rate of growth and the development of a nation's economy in

both the private and public sectors depend heavily upon the adequacy of the accounting information system. Emerging nations are in different stages of economic development and have cultural, social, political, and economic differences, yet all seem to have common goals: political stability, social equity, and economic growth. Their national efforts are directed toward the assumption of their rightful place among industrial nations. To realize these goals they must develop an industrial economy to help provide jobs for the growing populations, eliminate unemployment, and provide an abundance of consumer goods, all of which requires capital, and technical knowhow. Capital suppliers must have confidence that the funds supplied will be properly used.

Developing nations believe that industrialization can be achieved in a time span of from ten to twenty years as com-

pared to eighty to one hundred years in Europe and forty to fifty years in the United States. The shorter time projection is due to (1) shared technology, (2) the availability of capital from sources such as the World Bank (3) the movement of international corporations into all parts of the world, and (4) international cooperation in education and training. A typical economic development plan may seek to make a country self-sufficient in certain specified areas. The January 26, 1975 *New York Times* reported that it is one goal of Nigeria's five-year-plan, started in April, 1975, to make that country self-sufficient in the production of petroleum products, petro-chemicals, and paper.

The following discussion examines the relationship between some of the problems of emerging nations, the underutilization of managerial accounting techniques, and the lack of adequate measurement and reporting standards. It focuses on African nations, but all developing countries share many common goals and problems.

Environmental Influences

Are the emerging nation's dreams of radical economic transformations realistic? Can the citizens achieve political stability and social equity as they seek to throw off the specter of colonialism? How acute is the shortage of technology, capital, and manpower?

The ghost of colonialism haunts Africa as it does many developing countries. For centuries the economy has depended on agriculture and the extraction of natural resources by manual labor. Employers, supervisors and managers were non-African; all of the workers were African and their work attitude reflected their alienation from a sense of common enterprise. Very few of the laborers embraced the work ethic which characterized the United States during its developmental stages. Cultural, educational, and political differences between foreign management and native workers deepened the abyss between them.

Politically, many nations are struggling with the problems involved with obtaining freedom from the motherland. Business enterprises facing personnel, cost, and location decisions are influenced by the legacies of colonial policies. Few Africans have been trained to possess the necessary political skills to lead their nations. Rhodesia, for instance, a country with a relatively advanced economy, faces the possibility of

political upheaval with the approach of black rule. An unstable political environment and the potential for unrest within the native population tend to discourage new capital commitments and in some cases companies are withdrawing from fear of nationalization under new regimes.

The cultural environment offers more promise of stability than does the political scene. Here tradition plays a decisive role. Tribal customs reinforce loyalty among family groups while an awakening sense of common heritage is influencing cooperation between tribes and regions. However, in some countries ethnic, language and leadership differences impede national progress and add to the political unrest. Business languages are usually those of the motherland but few workers have any language skills other than their tribal dialects, which differ from riverbank to forest.

The father-to-son pattern for transferring skills does not exist because few of the fathers have occupational skills to teach. To insure an adequate supply of skilled craftsmen, typical five-year plans give top priority to technical education. Great emphasis is given to the geographical distribution of students in professional disciplines but accounting education is not mentioned in the Nigerian plan.¹

Education is dominated by the traditions of the colonists. Top students, after careful screening, are often sent to the motherland for their education and training. However, educational policies are changing and many students come to the United States for training now. Various countries also have American sponsored programs directed by professors on leave of absence from American colleges. Iran's Center for Management Studies is headed by a professor on a two-year leave of absence from Harvard's Graduate School of Business Administration. But although American thought is influencing education in the emerging countries the technical practices are still European. The Continental pattern is especially true in accounting.

Religion plays an important role in the social and cultural environment of Africa where Muslims constitute approximately one-half of the religious population. Large numbers of Protestants, and Roman and Eastern Orthodox Catholics, testify to the efforts of Christian missionaries also, but their current attempts at conversion are

meeting a new sense of ethnic and cultural pride which allows only limited success. Burgeoning pride in heritage may conceivably link Christian culture with the technical innovations of more industrialized nations, and reject both the ethnic and the expertise. Coming decades may see indigenous pride, which often includes resentment toward those seeking to change customs and practices, overshadow the desire for the benefits of industrialization. The followers of Islam will play an important role in many developing countries; their traditions and philosophies must be a major consideration in formulating economic policies.

Historically, ownership of businesses in Africa has been the province of European interests. American money and management have made a significant impact only in the last few decades. Legal environments within nations differ but emerging nations are moving to assure that majority ownership in businesses is held by nationals. Supported by indigenous decrees the small business owners will become a more important force in the economy in the future, and must assume more responsibility. Present economies are a mixture of free-enterprise and government control with international interests controlling most imports and exports.

Small businesses tend to engage in wholesale or retail marketing, and mining. An acute shortage of consumer goods reflects the lack of extensive manufacturing. Personnel shortages in all occupations needing technical training are critical, especially in accounting. Many small businesses do not even keep records and few persons possess even elementary bookkeeping skills. Rare, indeed, is the person with an accounting education.

Accounting Characteristics

In many developing countries accounting does not occupy a position of importance. In the public view it has not risen above the level of bookkeeping, and where audits are required they are considered a nuisance.

An officer of one of the leading banks in Nigeria reported to Gbenedio "most of our customers are petty traders and retailers who have practically no need to consult a public accountant. The majority of them do not keep accounts for their business. . ." The taxing systems do not require extensive records. (Many small businesses in the United States kept no records until the passage of the personal income tax law.)

Public accounting is in its infancy in many developing nations. None have a strong professional body to which government authorities, organizations, industry and commerce, and the general public can come for advice and assistance. In some countries the public arm of the profession does have legal recognition and has the power to control professional certification and entry to the profession.

The early practicing public accountants came from Europe. Many stayed to establish firms, either on their own or as a branch of an international accounting firm. Professional organization and practices follow that of the mother country — usually England. It is not unusual to find three or more of the "Big Eight" international firms with offices in the major cities of developing nations. These firms have the potential to control the profession; at the same time that potential imposes upon them a tremendous responsibility and offers an exceptional opportunity to guide the development of professional standards.

Few locally educated Africans are certified. Normally the students studying abroad take the certifying examinations in those countries. That procedure, coupled with the immigration of persons holding certificates from other countries, supplies the majority of the new public accountants. Only a few applicants whose education is limited to native schooling have met the required standards in those countries that have established examination procedures. Gbenedio reports that in the first six years that it was administered only eight persons passed the Nigerian examinations for Chartered Accountant. He believes that the high failure rate is due to the fact that the content of the examination relied so heavily on the British counterpart which presupposes the presence of comparable instruction.

Successful local firms tend to merge with international firms who primarily serve the needs of the larger organizations. Small business has scant access to the services of public accounting, and nationalization of the profession has barely begun.

Until recent years accounting was taught only in the major universities. This situation is changing as other colleges are adding accounting courses to their curricula. However, except in a few schools, the course contents have not advanced beyond the stage of bookkeeping. The quality of instruction is poor. Instructors are poorly educated,

poorly paid, and must supplement their teaching salaries with other full-time employment so that lecture preparation time is limited. Predictably, students leave the classroom ill equipped to meet on-the-job challenges.

Challenges Facing Accounting

The myriad problems facing accounting in developing countries are not unlike those confronting the professional industrialized nations. Each country must find ways of assuring an adequate supply of educated and trained personnel. Quality standards for measuring and reporting economic information must be developed. Users must be educated in the use of financial statements and understand their potentials and limitations.

Present information systems are poorly organized and underdeveloped, with inadequate systems especially prevalent in government agencies and government owned business. Small businesses often have no systems. Few information systems, except those of international firms, approach the level of sophistication expected from public companies in the United States. The financial statements which are prepared are often only those required by law. Ways must be found to insure that relevant information is accumulated and reported in a timely way in a form appropriate for the intended users.

Lack of managerial appreciation of the potential contributions of accounting is typical of the Third World. Executives usually are not aware of the purposes and importance of the information gathering and reporting systems. Neither are they aware of the skills of accountants and they fail to perceive the accountant as a financial expert whose skills can be used in helping to solve managerial administrative problems. Little emphasis is placed on information intended for use by internal management. One banker in Nigeria reported to Gbenedio that the principal use for financial statements is their submission to banks for commercial loans, and that the statement need not

necessarily be taken from the records, but could be projected amounts.

Alleviation of the shortage of persons with accounting skills must have top priority. The physical capacity of current college and technical school accounting programs is not large enough to meet current and future demands, and there are not enough qualified practitioners to attempt extensive on-the-job training. Future training will depend on a combination of academic and practical training. But, other pressing educational problems must be solved before increasing the actual numbers in educational programs.

In the next decade higher education must improve current programs. Institutions should give preference to the better preparation of students to meet the demands placed on accounting personnel. Research by the AAA Committee on Accounting in Developing Countries classified the major educational problems according to importance. Those listed as extremely important are:²

1. Inadequacy of locally authored textbooks. Local accountants most qualified to write are too busy to do so.
2. Inadequate teaching of accounting subjects at the college level. Accounting instructors must hold several jobs to supplement their teaching salaries.
3. Lack of qualified instructors at the college level. There is a general shortage of accountants and educators.
4. Lack of professional development opportunities for accounting educators and practitioners.
5. Inadequate accounting education for managers and prospective managers.

The developing countries are not alone in their search for acceptable procedures for establishing and enforcing accounting and auditing standards. There has been no legislative action on such standards. The absence of any counterpart to the Securities and Ex-

change Commission to spur standard development is keenly felt. The search for accounting principles and standards in the United States can serve as an example of how *not* to approach it! At least American accountants have learned that no one sector of the profession can set standards and expect them to be followed by the other sectors. There must be unity among those chosen to develop standards and those who apply the standards. Professional associations should share the responsibility in developing accounting principles and standards.

The accounting profession in developing nations includes persons with different specialties. There is generally a national organization made of several associations of person organized along the lines of specialties. Unlike America the "institute" may be composed of members of various groups including public, cost, managerial and government accountants. The association may be legally charged with the duties of regulating and controlling public accounting. Cooperation among the groups is imperative since a young and developing nation can ill-afford the folly of a divided accounting profession.

Conclusion

The problems faced by the accounting profession in the developing countries are great but not insurmountable. The needs are recognized by the accounting profession in America. Some accountants have joined the Peace Corps and volunteered for assignments in developing countries. This is the right time for accountants to project themselves as a positive force in solving problems in the developing nations. However, accountants must be keenly aware that any program arbitrarily prescribed must be feasible and culturally compatible in the particular country.

¹Pender Okpako Gbenedio, "The Challenge To The Accounting Profession In A Developing Country: The Nigerian Case" (unpublished Ph.D. dissertation, The University of Cincinnati, August, 1977), p.1

²American Accounting Association Committee Reports, 1976, *Accounting Review*, (Supplement to Vol. XLXI, 1976), pp 198-212

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