

**Accounting
&
Finance
As
Tools
For
Emerging Economic
Advancement**

Practical Considerations

&

Opportunities
For
Academic
Participation

Opinion

A Discourse

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**Accounting
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Practical Considerations

Accounting provides a foundation upon which advanced financial markets and economic systems are built.

Accounting based on generally accepted principles provides credibility and consistency and reliability in reporting and provides meaningful disclosure for decision-makers and investors.

The developed economies, today, consist of relatively few countries - with advanced accounting commitments - both financial and managerial. The less than developed economies consist of the majority of the countries in the world, with less developed accounting.

The finance situation is similar.

Granted much more than accounting and finance determines the extent of economic advancement. Many variables interact.

But, to advance enterprise development on more than a token scale, in a contemporary global context, financial markets are necessary. And to advance and maintain financial markets sound

and consistent accounting is necessary. The general model of developed economies substantiates this.

This presentation discusses, condensed into a limited space, some views on this topic based on the author's general experience, views and experiences in some less-than-developed and developed economies.

The discussion proceeds according to the following general scheme:

- < Situations are Not the Same or Interchangeable - Understanding and Awareness of Another Way.
- < History and Culture as Factors.
- < Environmental Situations - Political, Resources, Infrastructure, Education.
- < Place - Proximity - Markets, Neighbors.
- < The general Role of Accounting and Finance in Developed Economies.
- < The Accounting and Finance Role/Situation in Underdeveloped Economies.
- < Accounting Reform.
- < Accounting and Finance - Attitudes - Outlook - Integration, Outcomes - Speed.
- < Accounting and Finance Academics - Opportunities & Obstacles.

Situations are Not the Same or Interchangeable
Understanding and Awareness of Another Way

Any discussion of situations cannot proceed without recognizing the differences that occur because of differences in locations, nations, regions, ethnicity, language, cultures, awareness, thinking, resources, priorities, animosities, history and various other factors.

The differences are very real and significantly impact what is done, how it gets done, how it is perceived, and how and in what time frame it is truly understood or not.

It seems that all too often simplistic quick fix techniques are attempted. In its simplest form it goes like this. Here we are to help you - often on some piece of the total problem, not integrated into the whole. We will apply a great amount of money to this effort. This is the way we do it. That is what we will do for/to you. (Implied: Now, you try to understand us, we are too busy and consumed with meeting (our) goals (because that is our advanced way of doing things) to understand you and the hurdles that may prevent you from understanding this. And, oh, by the way, we are on a tight time schedule - and will leave soon - never to be seen or heard from again.) [Forgive the dramatics.]

Does this mean that some assistance is worse than none? No, because some communication will be established, and except in the very worst of cases productive seeds will be planted. But the efficiency and effectiveness and results may be far from optimum and when the externally injected 'push' ends the 'pull' of the dominant and established environment will diminish progress for lack of a support system.

For sustained and meaningful success what is needed is an underlying foundation of 'pull' elements by benevolent decree and/or popular demand. This fosters motivation and momentum - an effect like a snowball rolling down hill.

It is assumed here that change is desired and desirable. The issues of the ethics of encouraging, initiating, implementing, supporting or imposing changes in a culture are issues for another discussion.

And the entire integrated system will not change and function properly unless all of the related elements are properly and consistently changed or put in motion to change consistent with the whole.

For example: Accounting, finance, taxation, audit, credit, banking, securities markets, government policies, taxation... are all linked and inter-related. One cannot effectively be changed without impacting others - and conversely - in the greater system. And the academic processes and need to have a trained and educated population in place is critical elements. Considering these issues on a national basis in even a small nation or economy is a formidable task. Smaller is beautiful may truly be the byword in that in a small nation or economy it can be easier to deal with the logistics and geography and to get ones arms better around the whole situation and prove the point.

Here are just a sampling of difficulties in understanding a few accounting and finance issues between cultures. To someone from a developed country/economy these concepts are simple and take little time to cover in a classroom - they are culturally/environmentally imbedded. In other countries/regions the concepts are completely foreign and in some cases negative and anti-cultural.

Financial Accounting - Cash control through checks. Cash Flow statements.

Many economies are virtually cash basis. They lack the checking, plastic card and electronic equivalents of paying and receiving and controlling that most liquid and divertable resource called cash. Conveying the importance of this and the related accounting takes time and understanding.

Managerial accounting - Responsibility and accountability. Product costing and cost drivers. Financial planning. Control and performance measurement.

Many of these developed concepts have no historical basis in other countries. They were not part of the survival skills or competency tool kit. Getting beyond words to a true and consistent definition and understanding is a huge task.

Finance - Equity. Debt. Interest. The time value of money.

In some cultures fixed returns on money are against religious beliefs that dominate the culture. Dealing with this issue and related issues of planning and the cost of idle time and non-producing assets presents special challenges.

If we can say that in developed economies 'economic success is the expectation, availability and possession of substantial material goods' then the rules of the systems that produce that result are the rules to apply if one wishes to achieve that result. The rules have developed over and stood the test of time. To change the rules is to change the result.

To effectively work for progress and change in accounting and finance requires considerable, comprehensive understanding of much more than accounting and finance by all.

II

History and Culture as Factors

Every place has its history. Every place has progressed at its speed. Every place has its survival skills. Every place has its priorities.

History is all of those things that have happened to shape the present.

Culture is all of the customs, practices, values and rituals that have evolved based on history. It is what is accepted and acceptable. It is the attitudes that are in the mind.

History and culture are a society - how it thinks and behaves.

Power, position, initiative and equity are viewed differently in a kingdom than they are in a democracy.

The concepts of law and order and what is and is not a crime may depend on a society's history and culture.

What is perceived as graft and extortion in one society may be part of the system in another culture. It is historically true that in czarist times public servants were appointed without salary, and they were expected to make their way through fees they applied by virtue of their offices. Communism gave the elite what they wanted and the rest took what they could. Habits are historically tolerated and old habits die hard.

In certain societies creativity and innovation are/are not survival skills. Survival may be based on obedience and place in the system.

Some education systems have historically developed based on learning facts and memorizing versus learning processes of thinking, problem solving and opportunity seizing.

Affecting effective changes in a system depends on an understanding of how the system developed, attitudes in it and the power structure.

Environmental Situations
Political, Resources, Infrastructure, Education

There can be no doubt that the environments of economies influence their absolute and relative progress and rate and level of development.

Politics - Politics includes those issues of who governs and how and to what degree the general population participates.

Issues in the political environment include power, hierarchy, decision-making, delegation, participation or not, empowerment or not, how the system functions, and rules for the distribution of the production of the system.

Some systems favor a few. Others involve the general population. Some are closed. Some are open. How the system is structured greatly impacts the movement of goods and services and information. It is a significant factor relative to status quo or change. This matters greatly regarding 'push' or 'pull' in implementing and initiating change. That is, does change occur because it is initiated from the top of the power structure or does it flow freely from within the structure as a whole - is it external or internal? Is it easy and matter-of-course or is it difficult and rare?

Resources - Resources include those things that have traditionally been labeled men, money, materials and machines.

People make the difference. Nothing - good or bad (or nothing at all) - happens except through people. People empowered and motivated produce a different situation and result than people restricted with bureaucracies.

Money is a wonderful. Nationally and individually it allows for more options. Without it options are limited. Who has or wants the money and how much they want and the means and methods

of acquiring it significantly impact actions and decisions and the economy and society as a whole.

Materials include such things as the existence of natural resources in an economic unit and the availability and ease or difficulty of getting resources not resident in the unit. Material resources may be viewed as a substitute for cash.

Machines of all kinds are the means of production. Machines today are the hardware and software of an economy. Money and materials and management affect the machines inventory, their deployment and state of contemporary relevance. If this component is not balanced to the whole and the results that are desired the functioning of the total system will be deficient.

Infrastructure - Infrastructure includes the combination of communications, transportation, power utilities, water, and sanitation facilities. If these are not substantial and integrated and easily accessed the economic results will differ greatly from those systems where they are.

Education - Education and educational systems include the body of knowledge that is promoted and the methodologies for learning and applying the knowledge. Education includes a programming element for those educated. It includes many facets that define the skills a society adopts and how it will apply them. If process is stressed in education the culture will perform differently than if facts or memorization are stressed. If individualism is stressed the results will be different than if collectivism is stressed. If paternalism is stressed it will impact results. If the educational system is highly structured, rigid and controlled - as by a bureaucratic ministry of education - the results will be different than if the system is flexible and built on principles and objectives rather than on rigid specific dictates. If the attitude is one of finitely defined 'specialists' versus 'generalists' the result will be different. If education is a closed system versus an open

system the results will be different. If creativity and innovation are stressed the results and what is valued will differ. In any event there are risks as well as rewards, as is pointed out in the following from 'The Times of Central Asia', February 10, 2000, reprinted from 'The Economist':

The problem starts with an educational system that stresses rote learning instead of creativity (if they are to develop an ability to think up clever new ways of making money, etc., versus a desire to just chase profits). Both Malaysia and Singapore realise that they must expose young people to diverse ideas and influences, which means, among other things, giving them broad access to Internet sites. But the link between rote learning and authoritarian governments is obvious, neither government is eager to create a generation of free-thinkers. Moreover, along with creativity, true innovation requires a thirst for ideas.

When one sees many parts of the world one sees the world differently than if one's view is limited.

Everything is relative to what one really knows about anything and other things and to the benchmarks one applies. And the situation is dynamic and the targets always moving.

IV

Place - Proximity Markets & Neighbors

In addressing the situation of emerging economies the discussion should include consideration of why are they emerging/developing/underdeveloped. That is: Why haven't they already developed? Beyond the influences of factors noted above some consideration of where they are must be taken into account.

Some economies have capitalized on certain of their resources to overcome deficiencies in others. It is rare for one economy to have the luxury of internally possessing the full slate of

resources. It has been proven that through appropriate configuring and compensating capital results can be achieved.

There are also economies that possess great national wealth and have yet not been able to construct policies and systems to capitalize on them.

Potential does include the following issues.

Proximity to markets is essential for an economy. Economies need sales and sales depend on customers. While closeness to diverse markets increases possibilities it is proven that capitalizing on niche's or segments with good infrastructure and policies and management can overcome other shortcomings.

Besides the issues of neighbors as it influences the closeness and potential of markets, neighbors and their openness to transit and cooperation influences access to markets and the flow of commercial activity.

V

The general Role of Accounting and Finance in Developed Economies

In developed economies accounting and finance have developed jointly. One, accounting, providing the credibility for financial information; and the other, finance and its related needs for useful and credible information on operating results and financial position contributing motivation for accounting to develop along acceptable and desirable lines.

It is clear that accounting (and auditing) and financial needs go hand in hand. And reasonable taxation is closely linked, needing a fair and equitable and enforceable and accepted basis to secure funds for the public coffers.

Financial accounting proceeds based on a set of generally accepted rules for reporting and disclosure. It is applied uniformly across companies and industries. It makes comparability possible. It facilitates financial decision-making by those - a broad range of stakeholders - wishing to invest or divest. Managerially its integrated systems enhance the availability of information at all enterprise levels to help optimize profits and return on investment.

Finance provides orderly markets for those needing funds to obtain those funds from those having funds based on a variety of expectations and options.

Finance, as it exists today - increasing global - in developed economies, would not have the high degree of flexibility and mobility were it not for good accounting rules and principles.

VI

Accounting and Finance Roles/Situations in Underdeveloped Economies

The purposes and needs for record keeping, information and decision-making and the inter-related nature of financing arrangements and opportunities influence the roles and methods of accounting and finance. A look at two distinctly different situations will help put this in perspective.

Dramatically different situations are open, free-market, demand economies and closed, centrally planned command economies.

Some features of an open, free-market, demand economy include: many competitors, fluidity, open systems, individuality, differentiation, open entry and exit, survival of

the best competitors, time urgency, significant innovation, diverse options for capital funding - private equity and debt, broadly dispersed ownership, transferability of ownership, profit and ROI motives, freedom of sources and supply based on price and quality and time, and a relatively minor role of the state in enterprise affairs.

The enterprise managers and governments are interested in fair and consistent reporting and disclosure for management purposes, operating improvement and taxation.

Some features prevailing in a closed, centrally planned, command economy include: one or few enterprises in product sectors, conformity, collectivism/socialism, rigidity, closed systems, very limited entry or exit, survival by the will of the state, state motives versus profit motives, time urgency is not a high priority, generally innovation is not a priority because it is not a survival skill, 'public' funding from state budgets according to 'plans', no broad ownership, no profit or ROI motives, sources and supply based on state control, a dominant role of the state in defining products and setting production goals. Accounts are viewed absolutely for structure rather than relatively as to substance.

The enterprise bureaucrats are most interested in reporting according to a strictly dictated rigid scheme for state statistic purposes and in meeting state production targets. Information is limited and reporting and disclosure are dominated by secrecy and/or the propaganda to serve state purposes.

The exploration of differences can be expanded based on a variety of other circumstances and variables to include kingdoms versus democracies, Judeo-Christian (and variants) versus Islamic and such. These difference can likewise be compared to developed versus emerging/developing/underdeveloped scales; but that will not be pursued here because the purpose was to make

the point above - that the accounting and finance situation differs greatly based on circumstances and objectives - and not to engage in an exhaustive exploration of the many diverse options and combinations.

In defining these various different situations the point here is not to pass judgement based on good or bad. The point is to identify that they represent different situations. And relative to the benchmark of economic success as defined in I above one must evaluate all similar and dissimilar elements and the substitutability or modification of elements and how they work or not to produce the results they can and do produce and those that may be desired.

Truth has not a universal definition.

VII

Accounting Reform

The author has recently been involved in academic activities and accounting reform in the FSU. It must be said early on that the FSU is very large and diverse. Comments above must be factored in when saying anything about the FSU.

Accounting reform in the FSU is basically donor funded efforts and activities to convert the accounting methodology and procedures of these former and every-so-slowly transforming command economies to market economy financial, managerial, cost and tax accounting and auditing.

The concept can be more broadly viewed as any effort anywhere aimed at the same result - to improve enterprises' ability to take better care of business.

In general accounting reform can be viewed as that effort that attempts to move accounting toward the use and application

of those generally accepted accounting principles and methodologies that are consistent with those proven in developed economies, to help develop the economy.

This is undertaken for a variety of reasons, including:

- To facility economic self-sufficiency
- To help attract capital
- To help develop markets
- To help secure resources and supplies
- To cement relationships

It would be fair to ask here why these economies/countries do not initiate accounting reform themselves.

Among the reasons would be:

- Limited resources to fund the effort
- Limited knowledge base
- Entrenched power structure
- Donors are willing and are a source of funds injection

VIII

Accounting and Finance

Attitudes, Outlook

Integration, Outcomes, Speed

Where societies are in their history influences what they are as does their attitudes and expectations. In this realm can be considered feelings of optimism or despair of the population at large - hopeful to be all they can be or resignation that only limited opportunities are available according to the will and imposed bureaucracy of the governing.

In my observations the students and others in underdeveloped economies generally want the good life of the developed. Many obstacles prevent them from going there to enjoy it. Many

obstacles often prevent them from enjoying it in their home countries.

The entrenched power of the governing over the governed affects opportunities to leave or to seek a better life where they are.

Unwillingness to change may be the worst enemy. The familiar - 'we have always done it this way' - may seem easier and less risky to deal with than is change. Uncertainty and ignorance of the options and how they work may be issues. This can be true despite apparent support from the power structure and despite obvious and extensive helper participation. I remember addressing a group of auditors who strongly and sincerely questioned the benefits of the new accounting based on 'what is wrong with what we are doing now?'.

Helper motives may not be understood. And there may be real or perceived perceptions that the motives and objectives of the helped and helping do not mesh.

The suspicion of 'profits' and a perception of equity and the prospects of some having more economic rewards than others may run counter to entrenched attitudes.

Stable, familiar and predictable situations may be a higher priority. This can include fond memories of the past. I have seen political campaign promise of contemporary communists promising jobs, stability and predictability like it was before to receptive audiences. 'Better' was promoted as returning to the good old days, and the new order was not delivering on the promises.

The discussion above presents a complex picture of inter-relations of multi-dimensional variables.

Relative to accounting and finance, as they are understood and practiced in developed economies, there is a large gap in understanding and practice in and between under-developed economies. Yet, given commitment and a chance to work,

accounting and finance can help deliver a new and richer order. Or looked at another way a new and richer order benefits greatly from accounting and finance that support economic development and enhance the outcomes.

Accounting has often been viewed as bookkeeping and mere minor record keeping in less developed economies. The accountant has not been highly educated or a meaningful member of management and decision-making teams - in fact is often called bookkeeper. Auditing has served a purpose of verifying that bureaucratic process was followed rather than the fairness of the presentation of the results of operations and financial position.

And finance in the sense of evaluating investment decisions and competitively financing enterprises through a capital markets mechanism has not existed - because it wasn't allowed, there was no need and/or the system did not require it. Central planning systems (and here too the word 'planning' has a meaning other than it does within the management context in developed economies) allocate resources based on totally different parameters other than return on investment or attracting funds from many and diverse investors.

Securities exchanges do not exist in any meaningful sense. They may be in place on a superficial basis, which is a start, but often are populated with a few government or pseudo-government corporations. Annual reports and reporting and disclosure in the form expected by investors in economies with developed financial systems are rare at best. Investors - developed economy money - will not be attracted to developing regions without information and assurances that that money is reasonably safe and deployed according to sound economic evaluation standards, and that they are kept reasonably informed.

A broad range of macro and micro financing alternatives must be developed and promoted - stocks, bonds, leases, loans, general and operating credit, owner/operator initiatives, grass-roots entrepreneurial incentives. These must be diverse, extensive, fair and broadly accessible. Bureaucracy must be minimized. Sound business practices like planning and control and thoughtful evaluation of the viability of undertakings must be included. No-string-attached is as bad as too many strings attached. A recently reported business funding pool in Central Asia boasted that no business plan would be required of applicants. Lack of enforced discipline is as bad as too much red tape. Mechanisms must be reasonable. Without solid financing there is or is not enterprise to the relatively same extent.

Virtually no one in underdeveloped economies thinks of accounting - financial and managerial, auditing and finance in the same terms, contexts and intensity as in developed economies. There is no history or culture in this regard.

Theory is great but evidence is better. Both theory and practice are important. Success stories need to be advertised broadly and failures need constructive critique.

Sequential and simultaneous efforts make sense. Many things come after other things but also many things can and must proceed simultaneously to at a designated point ahead.

From an optimistic and humanistic point of view it is easy to see great potential.

Pessimistically the view is often riddled with constraints of time, place and personalities.

Realistically the prospects are likely somewhere in between. The current situations did not develop instantly nor can it be expected to change instantly across a broad spectrum. Continuous improvement must be the watchword. It is unlikely that instant turnarounds will occur. In the most visible case

of Russia the struggle seems to have barely begun. An attitude of 'continuous improvement' seems appropriate, assuming there is a proper vision of the final destination.

Those who will be members of the global economy must be committed to that end and to priorities aimed at that end. There must be a realistic faith in the system. Faith can be difficult, even in the face of solid evidence, and especially when notions are firmly established. I have heard it said that in the USSR there was a total disbelief that economies could function freely and optimally via the invisible hand and within the bounds of chaos such that until the end there was a persistent and perpetual search for a secret office in Washington, D.C. that directed the US economy. (Oh, what a prize for whomever could have found it and stole the secret.)

The successful economies did not just happen. Many centuries were required to reach the present state of development. The potential advantage that receptive and willing less developed economies have today is that they do not have to re-invent the wheel and suffer through centuries of transformation. They do have to factor in their history, culture, environment and other uniqueness. They do have to make hard decisions about the results desired, courses of action and commitment. They and their helpers do have to have vision and faith. Hard work cannot be avoided. Wishing alone will not do, for 'if wishes were horses beggars would ride'.

Some may succeed smoothly.

Some will likely fail or at least stumble.

The process and progress will likely be uneven.

Accounting and finance, like other aspects of the economic environment, must be left (demanded) to function based on reasonable functioning of open and transparent market forces. To prevent, restrict or otherwise not allow this will result in

substantially different outcomes than those pursued and achieved in open market contexts.

Accounting and finance are significant elements of advanced global economies and vital to the progress of those wishing to advance. A high degree of care is required when attempting to transfer elements of one economic/social system to another.

IX

Accounting and Finance Academics Opportunities & Obstacles

Opportunities abound in emerging areas of the world for academic involvement and assistance. Participation in any of the areas at issue, as included above or not, are steps in the right direction.

In particular accounting and finance reforms are academic issues because academics and education inject the knowledge of topics and issues into the society. Good education is a transformational and sustaining activity. Education is a programming process. It reaches the receptive and interested and may activate the previously disinterested and discouraged.

At the very least the purpose served is an intellectual exchange and an exposure of those persons with one set of perspectives to those of another.

There must be a genuine willingness, openness and receptiveness to alternative views by all involved or it will not work.

There must be some choice and democratic elements because choice is a fundamental element of market economies and democratic elements include choice.

A critical issue relates to reaching understanding. This must go well beyond a cursory exposure to textbooks only to be memorized and regurgitated. It must be on a broad and integrated scale. Like nurturing a baby from infancy through adolescence to adulthood it will take much time, effort, expense and patience.

Leadership must be visionary and honest.

Some opportunities for developed economies to participate in transitions include:

- ← Faculty exchanges
- ← Partnering with universities and service organizations
- ← Student exchanges
- ← Student trips
- ← Satellite programs
- ← Using the Internet to advantage - courses, seminars, etc.
- ← Sharing courses already on-line globally
- ← Student forums on the Internet
- ← Book donations (even old books)
- ← Constant and intense contact
- ← Sponsoring free economy and democratic organizations
- ← Short courses
- ← Exploratory trips
- ← More than 'take a look' trips (visible presence)
- ← Internet based virtual clubs and conferences
- ← Entrepreneurial partnerships

Some obstacles include:

- ← Cost
- ← Lack of facilities - including computers and Internet
- ← Language
- ← Bureaucracies

← Stimulating interest

There is plenty of opportunity for donors and interested parties of all kinds for a long time to come. Progress may not be even and uniform in all regards and many challenges abound. But in the global context of the brotherhood of man there is no other choice but to go forward.

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A Few

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Michael Klimesh has managed, led, consulted, taught, trained and presented in academia, large and small businesses, government and civic organizations on four continents.

He holds degrees and certifications in management, accounting, law and creative studies; and he is an advocate of and practitioner of life-long learning.

Since 1989 he has pursued a primarily academic vocation. During the preceding twenty-two years he held executive positions in very large and smaller firms in diverse industries.

As a Managerial Accountant (dual emphasis intended) he has influenced managerial and leadership action; and he is a participant, observer and student of management, leadership and development in varied situations.

He has participated in various creativity, problem-solving and critical thinking conferences, and is a habitual user of the processes in his work and in life in general.

Most recently he has been a consultant for accounting reform in Central Asia.

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